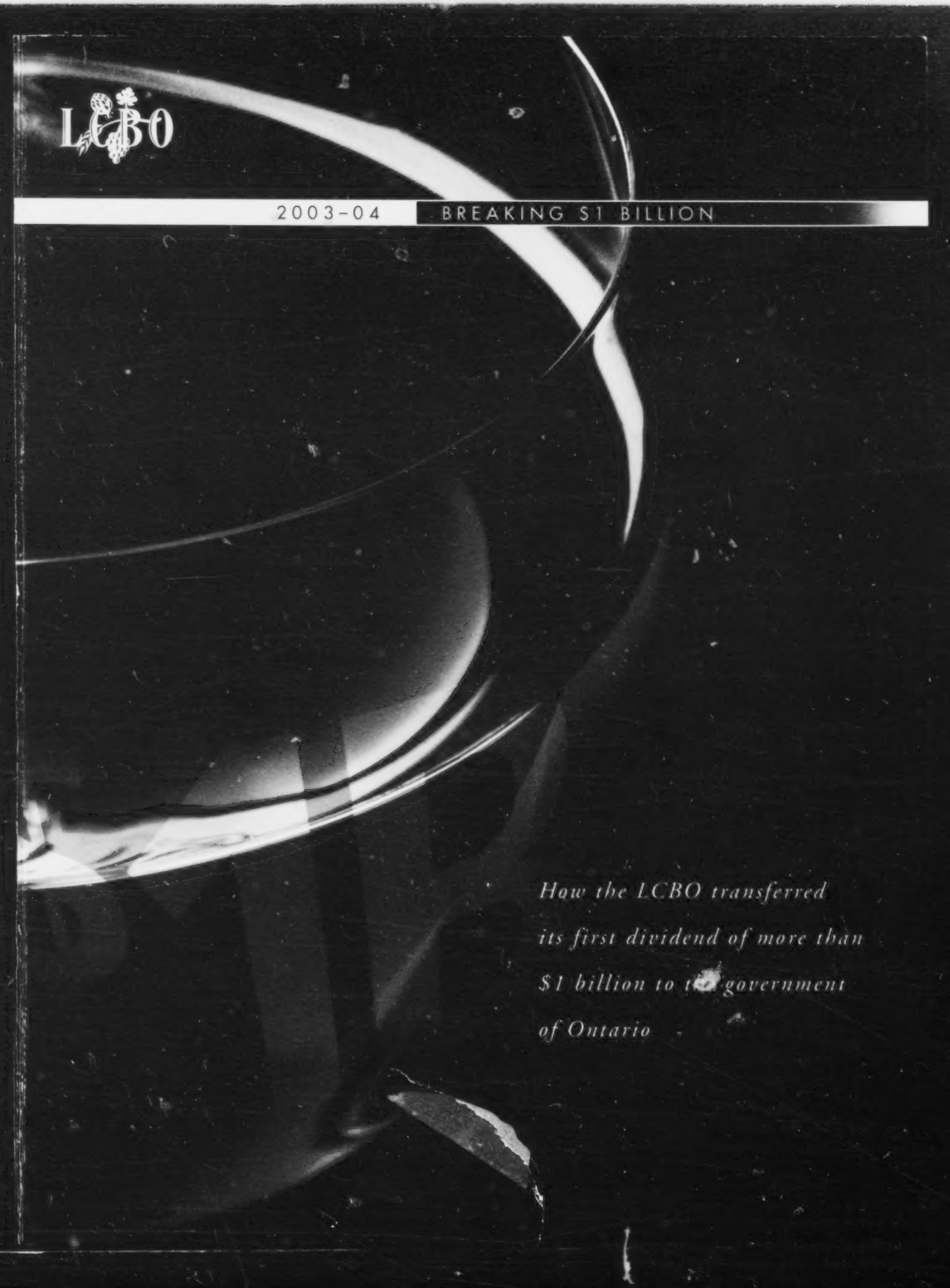

LCBO
2003–04
BREAKING $1 BILLION
How the LCBO transferred its first dividend of more than $1 billion to the government of Ontario

THE ANNUAL REPORT

Under the *Liquor Control Act*, we are required to prepare an annual report to the Minister of Economic Development and Trade. The Minister submits the report to Cabinet and tables it in the Provincial Legislature. This document is first and foremost a formal record of the LCBO's financial performance for the past fiscal year; however, it also provides an overview of the Ontario beverage alcohol marketplace.

Message from the Minister 1

Message from the Chair and CEO 2

Message from the President and COO 4

Corporate Governance 5

Beyond the Numbers 2003-04 8
(Management Discussion and Analysis of Operations)

Product Trends
- Wines 18
- Spirits 20
- Beers & Special Markets 22
- VINTAGES 24
- Wines of Ontario 26

Customer Satisfaction 28

Upgrading the Store Network 30

Economic Benefits to Ontario 32

LCBO Awards 33

Integrated Marketing 34

Quality Assurance 36

Improving Product Flow 38

Social Responsibility 40

Public Sector Disclosure Act 42

Responsibility for Financial Reporting 43

Financial Overview 44

Auditor's Report 54

Board Members 58

Useful Facts 60

MEMBERS OF THE LCBO BOARD

Andrew S. Brandt, *Chair and Chief Executive Officer*

Thom A. Bennett, *Member; Chair, Audit and Governance Review Committee (term expired October 2003)*

Gayle Christie, *Member; Chair, Audit and Governance Review Committee*

Bev Hammond, *Member*

John Hopper, *Vice Chair; Member, Audit and Governance Review Committee (term expired September 2003)*

Merle A. Jacobs, *Member (term expired December 2003)*

Perry Miele, *Member*

Bob Peter, *President and Chief Operating Officer*

LETTER OF TRANSMITTAL

The Hon. Joseph Cordiano
Minister of Economic Development and Trade

Dear Minister,

I have the honour to present you with the 2003–04 Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Andrew S. Brandt
Chair and Chief Executive Officer

CREDITS

The LCBO wishes to thank the Office of the Provincial Auditor and the members of the Audit and Governance Review Committee of the Board for their assistance in preparing this document.

Produced by LCBO Corporate Communications.

Financial information prepared by LCBO Financial Planning & Development. French adaptation by LCBO French Language Services.

Ce rapport est également publié en français sous le titre : Rapport annuel de la LCBO 2003–04.

MESSAGE FROM THE MINISTER

105-02789/

Minister of Economic Development and Trade

Hearst Block, Queen's Park
900 Bay Street
Toronto ON M7A 2E1
Telephone: (416) 325-6900
Facsimile: (416) 325-6918
www.ontariocanada.com
M2004-0901-44697

Ministre du Développement économique et du Commerce

Édifice Hearst, Queen's Park
900, rue Bay
Toronto ON M7A 2E1
Téléphone: (416) 325-6900
Télécopieur : (416) 325-6918
www.ontariocanada.com

Ontario

Message from the Honourable Joseph Cordiano

Minister of Economic Development and Trade
and Minister responsible for the Liquor Control Board of Ontario (LCBO)

As Minister of Economic Development and Trade, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2003-04.

As an arm's-length agency of the provincial government, the LCBO must meet not only the government's expectations but also those of its customers and shareholders, the citizens of Ontario.

This report highlights the LCBO's efforts in 2003-04 to meet those expectations by:

- delivering a dividend of $1.04 billion, excluding taxes, to support critical government programs, services and priorities such as health care and education;
- continuing its leadership role in promoting social responsibility;
- providing improved service and product selection to customers;
- supporting the efforts of the Ontario wine industry to build market share; and,
- working more closely with suppliers to improve the efficiency and cost-effectiveness of its supply chain system.

That being said, the government has made it a priority to ensure that all its public assets, including the LCBO, are both transparent and accountable to the people of Ontario. That is why in the 2004 Budget, the government announced that a review of all major Provincial assets, including the LCBO, will be conducted to assess whether or not Ontarians receive the maximum benefit from this significant Crown agency.

As the Minister responsible, I will work closely with the LCBO Board, employees and trade partners – along with my staff and colleagues in government, including the Ministry of Finance – to ensure the LCBO continues to meet and exceed the expectations of the taxpayers of Ontario and other stakeholders.

Sincerely,

Joseph Cordiano

MESSAGE FROM THE CHAIR AND CEO

Fiscal 2003-04 marked the first year of the LCBO's new five-year strategic plan, which took effect April 1, 2003. The plan provides the LCBO with a new brand vision: *Discover the World*. Its ultimate goal is to better equip our employees to take customers on engaging and enjoyable journeys of discovery, demystifying the products we sell and helping customers make more informed purchases.

Six key objectives were detailed in the plan. I'd like to describe the progress we made towards each in fiscal 2003-04.

1. To increase customer satisfaction

As we note on page 29, customer satisfaction hit record heights in fiscal 2003-04, as measured by three different sources: a large-scale independent Customer Tracking Study conducted twice a year; a smaller-scale Web-based study called Project SCORE conducted by the LCBO 13 times a year; and an ongoing professional Mystery Shopper program.

Key determinants of customer satisfaction are staff, shopping environments and product selection. The survey results indicate the steps we have taken to improve each of these elements contributed to the rise in customer satisfaction.

New and renovated stores (page 30) offer an informative shopping experience in appealing, convenient locations with plenty of parking; our well-trained staff are fully equipped to offer responsible and helpful advice on beverage alcohol and food matching; and improvements in product flow (page 38) have helped ensure we have the right products in the right place at the right time, while minimizing unnecessary investments in inventory.

2. To promote the responsible use of beverage alcohol

The LCBO takes its social responsibility (SR) mandate very seriously. Every retail employee takes a mandatory course in responsible service, helping them learn how to handle challenges and, when necessary, refuse service to someone who is intoxicated or cannot prove they are of legal drinking age. As you'll read on page 40, we challenged more than 1.2 million people in our stores in fiscal 2003-04, and refused nearly 70,000. We also promoted responsibility in many other ways, including advertising campaigns launched in partnership with MADD Canada, and messages that promoted moderate consumption of beverage alcohol as part of a balanced lifestyle.

3. To maximize returns to the people of Ontario by generating a total of $5.14 billion in dividends over the next five years (2003-08)

We more than met this goal in fiscal 2003-04, transferring a ninth straight record dividend of $1.04 billion to the government to help reduce Ontario's deficit and pay for hospitals, schools, roads and other important government social programs, services and major capital projects. That's an increase of $65 million over the year before and does not include any provincial, federal or municipal taxes. As we note on page 32, when combined with taxes, that combined figure was approximately $1.8 billion, $1.35 billion of which went to Ontario.

We achieved this increase by improving product flow and reducing net inventory; by building and renovating stores in a way that provides a solid return on our capital investments; by trading more customers up to premium products through education and awareness initiatives; by controlling costs wherever possible; and through an accounting change made by the government of Ontario, at the request of the Brewers of Canada, that saw domestic beer revenues for beer sold at the LCBO recorded on the LCBO's books, rather than submitted directly to the Alcohol and Gaming Commission of Ontario.

4. To develop and improve collaborative relationships with suppliers

A number of new initiatives were launched in fiscal 2003-04 to improve the way we collaborate with suppliers and ensure a continuous stream of products to meet the LCBO's requirements. Among these were a new Web site that provides agents and suppliers with information and forms they need to work effectively with the LCBO; a new joint performance scorecard that measures the performance of the LCBO and key vendors against agreed-upon standards; and a Collaborative Planning, Forecasting and Replenishment (CPFR) system that combines sales forecasts developed jointly by the LCBO, suppliers and agents, and tracks and monitors forecasts versus actual sales.

Working together, the LCBO and its suppliers are reducing the lead times needed to import products from overseas, reducing stock-outs, achieving cost savings and improving customer service. For details, please see page 38.

5. To promote the growth of Ontario wine sales

As we note on page 26, the LCBO works with the Ontario wine industry and government to build Ontario wines' market share. The LCBO and our industry partners set an aggressive volume growth target of 6.0 per cent for Ontario wine sales in fiscal 2003-04 and surpassed it. Sales grew by 8.5 per cent in dollars and 6.4 per cent in litres, well above the increases recorded the year before (4.1 and 2.1 respectively). We increased the number of Ontario wines we offer, educated employees and customers alike about their quality, value and versatility; highlighted Ontario wines in store displays and *Food & Drink*; and featured Ontario wines in numerous promotions.

6. To increase employee satisfaction

The LCBO undertook a number of steps in fiscal 2003-04 to better engage its employees and help them develop the skills they need to be effective leaders. In June 2003, we conducted a confidential Employee Attitude Survey – the third in a biennial series – to gauge employee satisfaction and determine where the LCBO could improve as an employer. More than two-thirds of employees responded – an excellent rate of return – and the LCBO shared the results with all employees. From a management perspective, the survey results were positive in many respects. They showed, for example, that most employees are proud to work for the LCBO, and that they thought the LCBO was doing a better job in such key areas as: managing corporate change; product knowledge training; supervisory guidance; management's understanding of employees' learning and development needs; and compensation. But while job satisfaction remains higher at the LCBO than at many other employers, it did decline somewhat since the last survey in 2001. To address this decline, we launched a number of initiatives, including leadership development conferences and workshops; an Intranet Web site to help employees develop competencies and skills specific to LCBO leadership positions; and a pilot program undertaken with our union to resolve more grievances internally, rather than having them proceed to more costly formal stages.

There are many more initiatives you'll read about in this annual report to help you assess how well the LCBO met its objectives in fiscal 2003-04, and how prepared it is to meet the challenges of the marketplace in the remaining four years of the plan.

To be sure, there were unique challenges in fiscal 2003-04, not least of which was the downturn in Ontario tourism due to the SARS scares; this and other unforeseeable events had a severe effect on our sales to licensees and duty-free outlets. Other challenges are more endemic: consumer tastes continue to shift to lower-margin products such as beer, wine and coolers, and away from the spirit products that used to contribute as much as 60 per cent of our margin dollars (that figure is now closer to 48 per cent). Nonetheless, I feel the LCBO is well-positioned to meet these and any challenges in the years ahead. In the matter of spirits, for example, we have staged a number of highly successful promotions to draw customers to the category (page 20) and will continue to work with trade partners to build on this success.

We have a highly trained staff that has adapted well to the many changes we have made in recent years to the way we buy and sell products; a seasoned senior management team, led by our very capable President and COO, Bob Peter; a knowledgeable Board that supervises our business affairs and ensures we meet the highest standards of corporate governance; and a supportive Ministry of Economic Development and Trade that understands and values the contributions the LCBO makes to the economic and social fabric of Ontario.

We have a well-considered strategic plan and have demonstrated in its first year that we are more than capable of delivering on its goals and objectives. The government, public, Board and management expect nothing less from the employees of the LCBO in fiscal 2004-05.

Andrew S. Brandt
Chair and Chief Executive Officer
Toronto, Ontario
August 2004

MESSAGE FROM THE PRESIDENT AND COO

When I joined the LCBO in 2001, I took over operational responsibility for a government enterprise that in many ways had already transformed and improved itself.

But in retail – as in most other business sectors – the job of improving the organization is never done. No matter how much progress has been made, there is always more to do to find new efficiencies, improve productivity and profitability and enhance customer service and shareholder value.

The LCBO, in my view, still had room to improve, especially in the way products flowed from suppliers to our store shelves.

Over the last three years, we have streamlined our procedures in this area considerably (page 38). We have worked with suppliers and agents to improve the way product moves through our system. As a result, our stores are well-stocked – but not overstocked – with the brands customers favour most.

We have also worked to contain costs: our expense-to-net-sales ratio declined from 16.7 per cent last year to 16.4 per cent this year. While this was not as good as planned – our forecast was 16.2 per cent – we will continue to set aggressive targets in this area and strive to meet or beat them.

We continued to invest in our store network in fiscal 2003-04, focusing on adding stores in underserviced, growing markets, as well as renovating, relocating and upgrading stores to bring them up to current corporate standards. In the majority of cases, we experienced solid returns both in terms of customer satisfaction (page 28) and return on investment (page 30).

The LCBO's new brand vision, *Discover the World*, calls for its employees to engage our customers as never before. To do that, LCBO managers must fully engage their own employees to ensure they understand and support our strategic and business goals, and embrace their roles in achieving them.

Accordingly, we launched several initiatives this fiscal year to strengthen leadership development.

For example, we held our first-ever All Managers Conference, where 750 managers heard first-hand the goals and objectives of our 2003-08 strategic plan and acquired the tools they needed to roll it out to their teams. Another All Managers Conference is scheduled for November 2004.

We also held leadership development conferences and workshops to help managers across the province better understand their own leadership styles and improve the way they communicate with employees and recognize their contributions to the LCBO's success.

If every LCBO employee comes to work ready to pitch in, have fun and make a difference, our goal of engaging our customers in a voyage of discovery will be well within reach.

As President and COO, I will continue to lead our efforts in these areas to the best of my ability, while doing my utmost to ensure the LCBO is well prepared to take advantage of emerging opportunities and deal with any business challenges that may arise.

Bob Peter
President and Chief Operating Officer
Toronto, Ontario
August 2004

CORPORATE GOVERNANCE

Serving our customers and stakeholders

The mission of the Liquor Control Board of Ontario (LCBO) is to be a customer-intense, performance-driven and profitable retailer of beverage alcohol, supporting the entertaining and responsible use of our products through enthusiastic, courteous and knowledgeable staff.

Our customers are the people who buy our products and services. Our stakeholders include the people of Ontario, their elected officials, our employees, our trade partners, and groups that share our concern for public safety. To serve their interests, we:

- deliver quality products and services at competitive prices
- distribute our products and services through a variety of retail formats and other sales channels, such as catalogues
- promote the responsible use of alcohol
- implement policies aimed at ensuring our workplaces are safe and free of harassment or discrimination
- control the importation, transportation, warehousing and sale of liquor outside of licensed premises, together with quality assurance and pricing, in a fair and impartial manner. Regulatory responsibility for Ontario winery retail stores, Beer Stores, on-site brewery and distillery retail stores, and liquor delivery – previously held by the LCBO – was transferred to the Alcohol and Gaming Commission of Ontario effective July 3, 2001.

To fulfill our responsibilities to the government and people of Ontario, we:

- develop and implement programs and services aimed at deterring the sale of beverage alcohol to persons who cannot provide valid proof of age, who appear intoxicated, or who are believed to be buying for either of these parties
- maximize dividends to the government of Ontario
- enhance the LCBO's value to the government of Ontario
- manage the LCBO's business risks.

What is corporate governance?

Corporate governance means the processes and procedures a corporation uses to manage its business and affairs to enhance shareholder value. It includes ensuring the financial viability of the business, and the corporation's positive relationship and dealings with stakeholders.

As an operational enterprise of the provincial government, we are not required to disclose our corporate governance practices, as are companies listed on the Toronto Stock Exchange. We believe, however, that effective corporate governance and accountability are essential to fulfilling our mandate and have included this section to increase understanding of how we are governed.

Members of LCBO's Board have responded to the need to establish forward-looking policies for corporate governance and to monitor these policies to ensure their effectiveness. The LCBO strives to meet the highest standards of both corporate governance and disclosure.

The Board

The mandate of the Board is to supervise the business affairs of the LCBO. Among its most important responsibilities are:

- ensuring that the LCBO provides high quality service to the public
- developing and approving the strategic plan and monitoring management's success in meeting its business plans
- approving annual financial plans
- ensuring that the organization remains financially sound
- assessing and managing business risks
- submitting an annual financial plan to the Minister of Economic Development and Trade
- ensuring the organization has communications programs to inform stakeholders of significant business developments
- ensuring that the LCBO performs its regulatory role in a fair and impartial manner.

Appointment of Members to the Board

Members of the Board are appointed by the Lieutenant Governor, through orders-in-council, on the recommendation of the Premier and Minister of Economic Development and Trade. Members are appointed for a term of up to five years.

The LCBO provides new Members with a comprehensive orientation program, which includes education about its business operations, current strategies and issues, including visits to LCBO facilities. New Members also meet with senior management.

Responsibilities of Board Members

Each Board Member has individual responsibilities for corporate governance, including:

- acting honestly and in good faith in making decisions with a view to the best interests of the LCBO and all its stakeholders
- overseeing the management of the business and affairs of the LCBO
- avoiding conflicts of interest. Board Members may not use their positions for personal gain
- having adequate knowledge of the LCBO's business, how it is organized, and how it functions
- attending Board meetings and seeking professional advice where necessary
- exercising judgment independent of management
- providing guidance on policy development.

The strategic planning process

Since 1987, the LCBO has had a five-year strategic planning process. The process begins with an annual strategic planning conference whose purpose is to help define priorities and goals over the five-year period and shape our efforts over the shorter term. The Board approves the corporate strategies and reviews the objectives developed by each division to achieve them. Performance appraisals are tied to corporate and departmental business plans; every employee is assessed by how well he or she helps the LCBO achieve its objectives.

The strategic plan is supported by our five-year capital plan. For further information, please see page 16.

Audit and Governance Review Committee

The Audit and Governance Review Committee is composed of three Board Members elected annually by the Board. The Committee ensures the reliability and accuracy of the LCBO's financial statements, helps co-ordinate and improve its internal control functions, reviews and advises on possible changes to the LCBO's corporate governance policies and practices, and ensures that the LCBO adheres to sound corporate governance principles. The Committee:

- monitors the Board's activities and operations
- reviews the LCBO's policy and procedures manuals to ensure that they describe adequate and commercially reasonable procedures and activities and set out appropriate control and management processes
- reviews the LCBO's strategic planning process and the appointment, training and monitoring of the performance of its senior management
- reviews the scope of the responsibilities of the LCBO's Chair and CEO and the Members of the Board and the limits of senior management responsibility and makes recommendations to the Board accordingly
- advises and counsels the LCBO General Audit Department
- in conjunction with the LCBO General Audit Department, reviews the LCBO's internal control system, internal compliance audits and the annual budget, and makes recommendations as required
- identifies the principal risks facing the business and reviews systems to manage these risks
- acts as a liaison among the Board, the LCBO's General Audit Department and the Provincial Auditor
- oversees the production of the Annual Report.

Ethics and business conduct

The Board is responsible for establishing and monitoring a system for corporate governance, and for administering and enforcing a code of conduct for business ethics.

Following a review of the LCBO's corporate governance practices, in March 1998, the Board approved a new policy for the conduct of the business of the corporation, including terms of reference and practices for the Board and for all committees of the Board. In April 1998 (updated October 2000), the Board approved a new Code of Business Conduct, with policies for: conflict of interest; confidentiality; the outside activities of employees, officers and Members of the Board; gifts and entertainment; and human rights.

Health and safety

The Board approves an annual Health and Safety policy and ensures that regular meetings are held by joint bargaining unit and management health and safety committees. As part of its monitoring of the policy, the Board ensures it is kept informed of workplace health and safety issues.

Store Planning and Development Committee

This is a staff committee which reports to the Board. It reviews all real estate and leasing decisions and makes recommendations to the Board.

Listings Appeals Committee

The LCBO has a Listings Appeals Committee which reviews appeals of denials of listing applications and decisions as to products that are delisted from sale through the LCBO.

Governance of the LCBO differs from private sector corporations

In public companies, Boards of Directors usually have a number of key responsibilities which they perform on behalf of shareholders to ensure an effective system of accountability. In the case of the LCBO, an operational enterprise of the Ontario government, several of these functions are performed directly by government. This includes the appointment of the Chair and CEO. In making major policy decisions, the Board often invites input from the provincial government and other stakeholders and takes into account government policy objectives.

Accountability

The LCBO is held accountable by the government and people of Ontario in a number of ways, including:

- its Annual Report, tabled in the Provincial Legislature and available for all Ontarians to review, either in print or online at *www.lcbo.com*
- annual audits of LCBO financial statements by the Office of the Provincial Auditor
- public access to records under the *Freedom of Information and Protection of Privacy Act*
- publicly appointed Board Members
- statutory reporting requirements under the *Liquor Control Act* to the Minister of Economic Development and Trade and the Minister of Finance
- working with the government to ensure appropriate and adequate accountability provisions are in place between the Ministry of Economic Development and Trade and the LCBO, including reporting requirements for the annual financial plan, capital plan and multi-year strategic plan
- compliance with Management Board's Agency Accountability Directives.

BEYOND THE NUMBERS 2003-04

Management Discussion and Analysis of Operations

Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government operational enterprise, LCBO is not subject to these regulations. However, we've included this discussion to increase understanding of our operations and ensure disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

1 Jackie Bonic
VP, Store Development & Real Estate

2 Alex Browning
Senior VP, Finance & Administration

3 Tamara Burns
VP, Merchandising

4 Nancy Cardinal
VP, Marketing Communications

5 Bob Downey
Senior VP, Sales & Marketing

6 Roy Ecker
Senior VP, Retail Operations

7 Mary Fitzpatrick
Senior VP, General Counsel & Corp. Sec.

8 Murray Kane
Senior VP, Human Resources

Continued page 11

HIGHLIGHTS

(value in $000s)

	2002-03	2003-04
Dividend to government	$975,000	$1,040,000
Per cent increase	7.7	6.7
Net sales and other income	$3,119,240	$3,320,681
Per cent increase	6.1	6.5
Operating expenses	$525,959	$548,778
Per cent increase	7.4	4.3
Net Income	$939,542	$1,045,428
Per cent increase	2.0	11.3

Dividend increases

We transferred a record $1.04-billion dividend to government in 2003-04, excluding all taxes. That's a $65-million increase over last year and our first billion-dollar transfer ever ($39 million of this increase was funded by the accounting change that saw domestic beer revenues for beer sold at the LCBO recorded on the LCBO's books, rather than submitted directly to the Alcohol and Gaming Commission of Ontario). It was the tenth straight year we've increased our dividend and our ninth straight record year.

The following table gives a 10-year history of LCBO dividends paid to the province of Ontario.

DIVIDEND	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04
$ MILLIONS	$630	$680	$730	$745	$780	$800	$850	$905	$975	$1,040

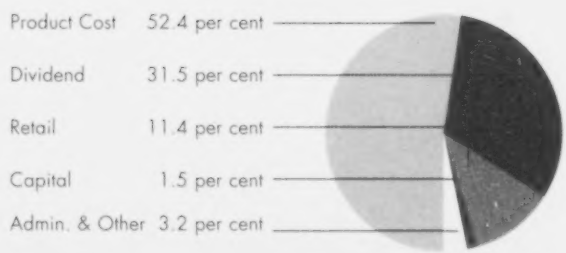
The dividend has risen steadily in the past decade. Since 1994-95, the dividend has grown by 65.1 per cent or $410 million.

Government revenue disbursement

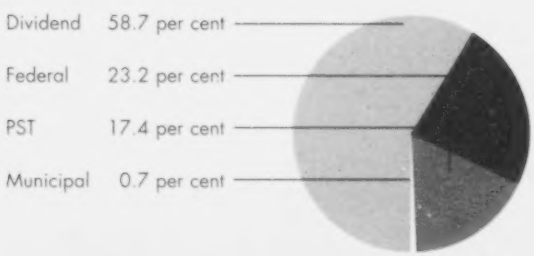
The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $308 million in 2003-04. If you combine the dividend and the PST we collected, the LCBO gave the government of Ontario a total of $1.35 billion, which is 6.7 per cent more than last year. This is the sixth straight year the LCBO has broken the billion-dollar mark when dividend and PST are combined. The LCBO also remitted $103.5 million to the federal government in GST and $12.3 million in property taxes to municipal governments.

These charts show the breakdown of $1 in net sales and how LCBO profits are shared between various levels of government.

BREAKDOWN OF $1 IN NET SALES



LCBO PAYMENTS TO GOVERNMENT



Robust sales growth

Despite Ontario's sluggish economy, LCBO's net sales grew by $200 million to $3.3 billion, a 6.5 per cent increase over fiscal 2002-03, just missing the sales growth target set at the end of last year by 0.4 per cent.

The LCBO's sales have grown over the last five years by 30.6 per cent in volume and by 30.2 per cent in value. Of all Canadian liquor jurisdictions, only Quebec surpassed Ontario in terms of growth over the last five years. By comparison, SAQ's sales volume grew by 82.3 per cent while dollar sales grew by 47.3 per cent.

Total retail sector sales in Canada grew 3.1 per cent between 2002-03 and 2003-04. According to Statistics Canada, Ontario underperformed the national average with retail sales growing by 2.8 per cent. LCBO was able to grow sales by 6.5 per cent, surpassing both the national retail sales growth and Ontario's average retail sales growth.

Growth exceeds plan in three out of four regions

Three of the four LCBO retail regions bettered the budgeted growth rates for net sales in fiscal 2003-04, the exception being the Central Region. The following chart shows how each region fared compared both to plan and the year before.

REGIONAL SALES GROWTH

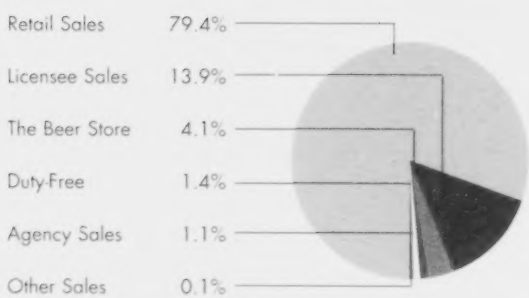
	vs. Plan	vs. Last Year
Northern Region	+2.0 per cent	+4.4 per cent
Eastern Region	+0.5 per cent	+5.9 per cent
Central Region	-0.6 per cent	+7.8 per cent
Western Region	+0.6 per cent	+6.2 per cent

Retail sales continue to be strong

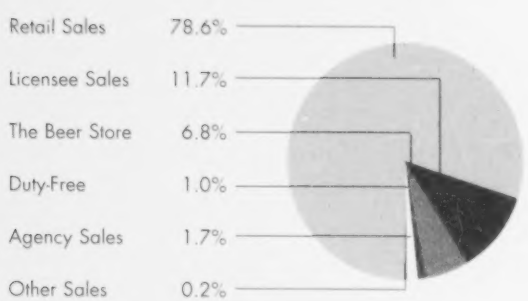
LCBO retail sales, which we define as sales to home consumers, grew by 6.7 per cent over last year and accounted for 78.6 per cent of the LCBO's total net sales, amounting to $2.59 billion. Last year, they grew by 5.0 per cent over the year before and, at $2.43 billion, accounted for 78.5 per cent of total net sales.

Because of the continuing growth in consumer taste for imported beer, sales to The Beer Store increased by 14.3 per cent. These sales now account for 6.8 per cent of total LCBO net sales, slightly up from 6.4 per cent last year.

BREAKDOWN OF LCBO SALES 1999–2000



BREAKDOWN OF LCBO SALES 2003–04



Weakness in the tourism industry, resulting mainly from an economic slowdown in the United States and fallout from the SARS outbreak in Toronto during spring 2003, dampened sales through the licensee and duty-free channels. Licensee sales accounted for 11.7 per cent of total net sales in fiscal 2003-04, down from 12.5 per cent. In terms of actual sales they were flat to last year and below plan by 3.5 per cent. Sales to duty-free operators accounted for 1.0 per cent of total net sales, which is slightly less than last year's 1.2 per cent. Actual sales fell by 13.0 per cent and were below plan by 17.1 per cent. Sales to agency stores increased from 1.4 per cent of total sales to 1.7 per cent, due to a 26-store expansion in the network, which serves rural communities that do not have a large enough population base to support an LCBO or Beer Store.

Growth of Ontario wineries' direct delivery sales of VQA products to licensees has begun to slow down after four years of double-digit growth. In fiscal 2003-04, VQA direct delivery by Ontario wineries increased in volume by 8.4 per cent, while LCBO VQA wine sales to licensees fell by 12.5 per cent. In 2003-04, direct delivery of VQA products represented 13.8 per cent of the total volume of the licensee market for wine, compared to 13.2 per cent in 2002-03.

Combined, these wholesale sales represented 21.4 per cent of total LCBO net sales, up from 20.6 per cent five years ago.

9 Hugh Kelly
Senior VP, Information Technology

10 Bill Kennedy
Executive Director, Corporate Communications

11 Gerry Ker
Executive Director, Corporate Policy

12 Ian Martin
Senior VP, Logistics

13 Barry O'Brien
Director, Corporate Affairs

14 Dr. George Soleas
VP, Quality Assurance

15 Shelley Sutton
Director, Strategic Planning

16 Tom Wilson
VP, VINTAGES

LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store, Ontario winery retail stores (WRS), on-site brewery stores, agency stores, duty-free operators and on-site distillery stores. As of March 31, 2004, there were 1,670 outlets selling alcohol in Ontario.

In fiscal 2003-04, the LCBO opened 26 new agency stores in smaller communities throughout Ontario. The agency store program is designed to improve beverage alcohol service for residents and visitors in rural areas and smaller communities, while maintaining the LCBO's social responsibility standards. It also helps stimulate local economies by increasing employment opportunities for local residents and broadens the host community's business base while improving LCBO revenues.

Here is what the market looked like on March 31, 2004 (percentages have been rounded):

- 598 LCBO stores (35.8 per cent of all outlets)
- 445 Beer Stores (26.7 per cent of all outlets)
- 390 Ontario winery retail stores (23.4 per cent of all outlets)
- 181 agency stores (10.8 per cent of all outlets)
- 39 on-site brewery stores (2.3 per cent of all outlets)
- 11 land border-point duty-free stores (0.7 per cent of all outlets)
- 3 on-site distillery stores (0.2 per cent of all outlets)
- 3 airport duty-free stores (0.2 per cent of all outlets)

* If you combine the LCBO's 598 stores and Ontario's 181 agency stores, the share of outlets is approximately 46.6 per cent.

Changes in market share

The total Ontario beverage alcohol marketplace amounted to $8.0 billion in gross sales in 2003-04. The LCBO's market share by value has increased from 45.5 per cent in 2002-03 to 47.8 per cent in 2003-04. Winery retail stores sales grew by 4.6 per cent, and increased market share to 2.4 per cent. The Beer Store's market share increased in 2003-04, from 32.4 per cent to 32.8 per cent.

Other legal sales

Other legal sales, such as cross-border and brew pubs, declined by 30.2 per cent from fiscal 2002-03 and the market share for these channels declined from 13.7 per cent in 2002-03 to 11.1 per cent.

Illegal competition

The estimated share of the illegal market in Ontario decreased slightly from 6.1 per cent in 2002-03 to 5.9 per cent in 2003-04. This illicit channel is estimated to have redirected revenues of more than $443 million, down from $455 million last year.

THE INCOME STATEMENT

Net income

Net income for fiscal 2003-04 was on target at $1.045 billion – $105.9 million, or 11.3 per cent, higher than last year.

The net-income-to-net-sales ratio was 31.6 per cent, surpassing the 2003-04 target of 31.1 per cent and higher than last year's ratio of 30.3 per cent.

Our expense-to-net-sales ratio slightly missed expectations. It was originally forecast at 16.2 per cent and came in at 16.4 per cent in fiscal 2003-04. More detail is provided in the section on productivity ratios.

In spite of the sluggish economy, our net sales grew 6.5 per cent, just missing the target of 6.9 per cent set at the end of last year.

Gross margin

Gross margin grew a healthy $127.5 million to $1.57 billion in fiscal 2003-04. This exceeded the planned target by 1.1 per cent.

Gross margin as a percentage of net sales for 2003-04 was 47.6 per cent, above both last year's value of 46.6 per cent and this year's target of 46.9 per cent.

Gross margin had declined over the past years due to a shift in consumer tastes away from higher-margin products such as spirits toward lower-margin beers, coolers and wines. This trend began to reverse in 2003-04, due to lower sales of coolers and beer during the cold, wet spring, and to successful promotions for spirits and wines. The increase in the gross margin also reflects the transfer of the Alcohol and Gaming Commission of Ontario (AGCO) Ontario beer fees to the LCBO, as explained on page 2.

For every dollar of net sales, our gross margin return on spirits is $0.56. On wine, it is $0.48 and on beer, $0.33. Beer and wine now represent 54 per cent of total net sales, up from 53 per cent last year and 49 per cent five years ago. The increasing strength of beer and wine in the product mix means an ever-greater proportion of our sales dollars come from the sale of lower-margin product lines.

Productivity ratios monitored

To track expenses and see where improvements are needed, LCBO sets targets for many productivity ratios each year. For example, the store-expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, rent and other expenses. A declining store-salary-to-sales ratio means that staff are becoming more productive.

Retail productivity

The LCBO has consistently improved its retail productivity ratios year over year. In fiscal 2003-04, we once again performed better than the previous year, but were only able to meet one of seven aggressive targets set at the end of fiscal 2002-03.

Store salary to sales: At 7.2 per cent, this ratio improved over last year (7.3 per cent) but was higher than our planned target of 6.9 per cent.

Store expenses as a percentage of sales: At 10.4 per cent, this ratio remained flat to 2002-03 and 2001-02, but was slightly higher than the planned target of 10.0 per cent due to higher controllable labour costs.

Store salary per unit sold: At $0.78, this ratio was flat to last year and well below the previous three-year average of $0.84, but higher salary costs resulted in it coming in $0.05 over target.

Store expenses per unit sold: Came in at $1.14, above the target of $1.06.

Unit sales per hour: At 32.2, this ratio improved over last year's figure of 31.3, but missed the target of 35.5.

Sales per customer: Consumers were spending more this year ($29.38) than last year ($28.51), but marginally below the target of $29.43.

Sales per square foot: At $1,800, sales per square foot improved significantly over last year ($1,755) and against plan ($1,762).

RETAIL – FINANCIAL AND OPERATING HIGHLIGHTS

	99-00	00-01	01-02	02-03	03-04
Store salary to sales	7.6%	7.9%	7.4%	7.3%	7.2%
Store expenses as percentage of sales	10.5%	11.0%	10.4%	10.4%	10.4%
Store salary per unit sold	$0.84	$0.87	$0.80	$0.78	$0.78
Store expenses per unit sold	$1.17	$1.22	$1.13	$1.11	$1.14
Unit sales per hour	25.7	25.5	28.6	31.3	32.2
Sales per customer	$27.19	$27.86	$28.10	$28.51	$29.38
Sales per square foot	$1,674	$1,693	$1,752	$1,755	$1,800

Note: Unit sales per hour refers to the average number of units sold in LCBO stores per operating hour.

Logistics productivity

The logistics side of the business did not achieve all its productivity goals this year, meeting two of seven targets. Higher than expected expenses, particularly in the areas of compensation, rent, utilities, breakage and outbound freight led to this result.

Warehouse salary cost per case: At $0.82, this year's ratio was lower than last year but missed the target of $0.80.

Warehouse cost per case: At $1.03 per case, this ratio was 6.4 per cent lower than last year but missed the target of $1.00.

Logistics cases per hour: This ratio beat the target of 63, coming in at 64 cases per hour.

Logistics cost per case handled: At $0.62 per case handled, this ratio was lower than last year by $0.02 per case, but missed the target of $0.61 by one cent.

Freight expense per case: Increased again over last year's value of $1.26 and missed the target of $1.28, coming in at $1.42 per case.

Inbound freight as a percentage of sales: Fuel costs remained high this year which led to this ratio coming in at 2.5 per cent, above the target (2.1 per cent) and last year (2.2 per cent).

Outbound freight as a percentage of sales: Met its target by coming in at 0.7 per cent.

LOGISTICS – FINANCIAL AND OPERATING HIGHLIGHTS

	99-00	00-01	01-02	02-03	03-04
Warehouse salary cost per case	$0.75	$0.76	$0.77	$0.83	$0.82
Warehouse cost per case	$0.98	$0.95	$1.00	$1.10	$1.03
Logistics cases per hour	62	64	64	66	64
Logistics cost per case handled	$0.59	$0.57	$0.59	$0.64	$0.62
Freight expense per case	$1.13	$1.16	$1.11	$1.26	$1.42
Inbound freight as percentage of sales	2.0%	2.0%	1.9%	2.2%	2.5%
Outbound freight as percentage of sales	0.6 %	0.6%	0.6%	0.7%	0.7%

Note: For certain logistics ratios, the prior years have been restated due to the reclassification of one of our facilities. For logistics cases per hour, the prior years have been restated, as warehouse hours now reflect all hours worked.

Operating expenses on course

The administrative expense ratio matched the target set for the fiscal year, coming in at 3.4 per cent.

At 16.4 per cent, operating expenses as a percentage of net sales were lower than last year (16.7 per cent), but missed the target of 16.2 per cent [2].

[2] This ratio is as per our internal management reporting and thus will not match the ratio in the Financial table on page 44 of the "Financial Overview" section.

BALANCE SHEET

Liabilities

Liabilities, consisting of accounts payable and accrued benefit obligations, were up from $299.6 million in 2002-03 to $340.7 million in 2003-04.

Year-end inventory and turns

Year-end inventory was up from $247.5 million in 2002-03 to $270.2 million in 2003-04. Total inventory turns decreased from 7.5 in 2002-03 to 7.3 in 2003-04, and missed the target of 8.4. The weakness in total inventory turns can be attributed to labour unrest at CN Rail and the Port of Montreal, inbound freight problems, lower-than-expected beer and cooler sales, and sluggish VINTAGES inventory turns this year.

CHANGES IN OUR FINANCIAL POSITION

More cash on hand

LCBO's cash position increased from $46.4 million in 2002-03 to $60.7 million at the end of 2003-04.

CAPITAL EXPENDITURES (values in $000s, numbers rounded)

	99-00	00-01	01-02	02-03	03-04
Retail	23,112	39,984	31,458	46,570	32,247
Information Technology	24,895	7,375	14,259	12,758	6,877
Logistics	1,760	2,066	3,493	11,848	10,158
Marketing Programs	2,434	1,231	1,730	1,565	1,130
Other Administrative Divisions	1,463	2,409	1,347	1,265	2,139
Systems Improvements	808	2,624	3,448	1,056	882
Total Capital Expenditures	54,472	55,689	55,735	75,062	53,433

As part of our five-year strategic plan to help customers *Discover the World*, most of the capital budget was again allocated to upgrading more retail stores to current corporate standards.

Expenditures in logistics in 2003-04 remained higher than in past years because we invested in the expansion of our London warehouse and upgraded other warehouses. The London warehouse nearly doubled in size and more than doubled its storage and throughput capacity, to help alleviate demands on our main Durham warehouse in Whitby.

LOOKING AHEAD

In fiscal 2004-05 the successful identification and handling of strategic issues in retail and logistics will result in a forecasted net sales increase of 5.7 per cent or $186 million to $3.5 billion.

As we enter the second year of the five-year plan in 2004-05, we continue to recognize and capitalize on opportunities for improvement, with customer service remaining our focal point. The LCBO will support frontline employees by providing training; by providing original marketing programs that capture and convey the essence of our brand vision, *Discover the World*; by continuing to improve store formats, locations and product selection; and by continuing to alleviate unnecessary product handling through door-to-floor and other supply chain improvements, so employees can spend more time serving customers.

Divisional expenses are expected to rise by 5.9 per cent. As was the case last year, this increase is being driven by higher rent, taxes and other expenses; training and labour costs and higher salaries and benefits.

Volume sales are expected to increase by 2.5 per cent next year. The gross margin percentage is expected to increase to 47.8 per cent, owing to lower projected sales of lower-margin beers and coolers. Net income will increase to 31.8 per cent of net sales, rising by 6.0 per cent or $62.3 million, from $1.045 billion to $1.108 billion.

Our product costs as a percentage of net sales are projected to decrease slightly to 52.2 per cent in 2004-05.

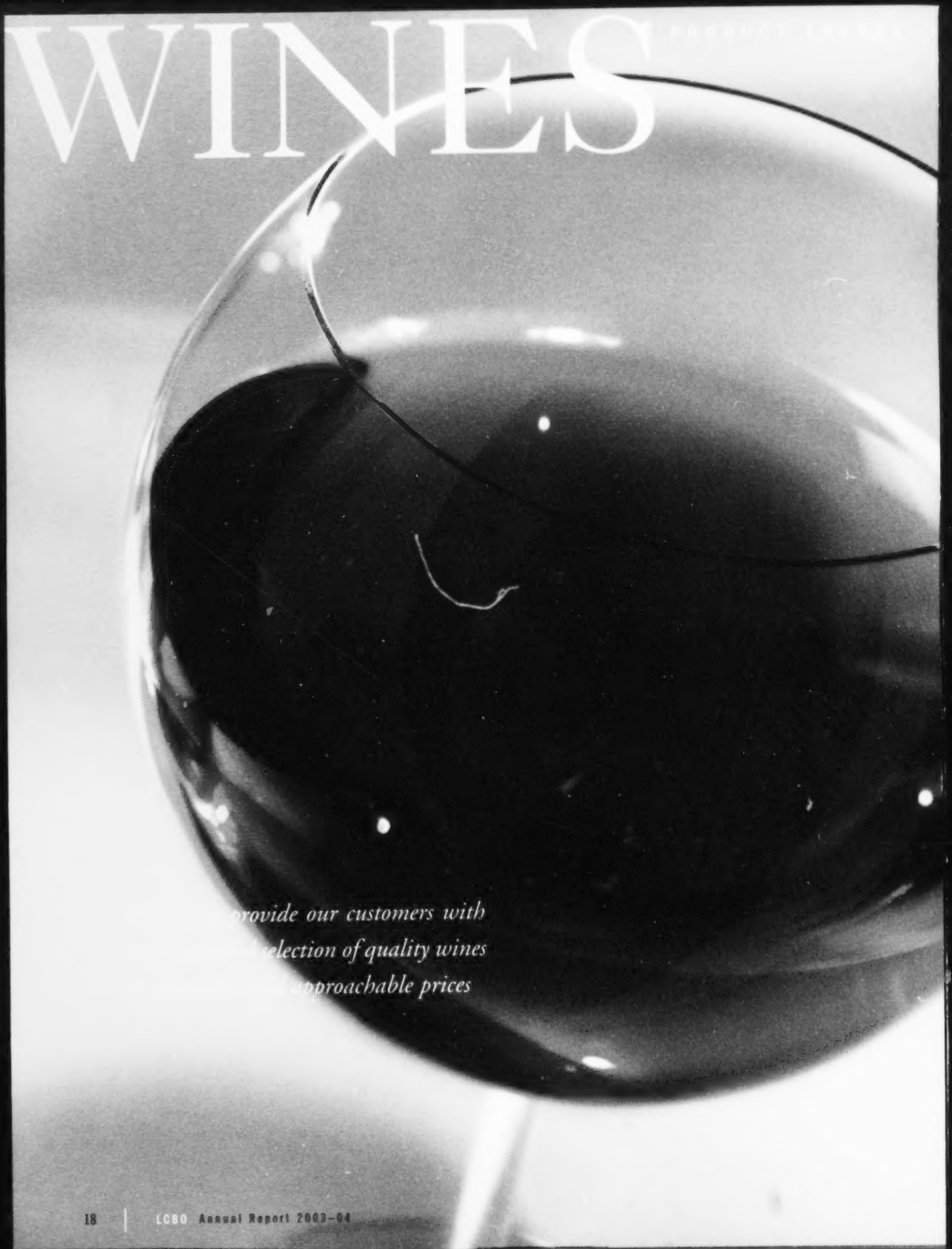
Our expense-to-net-sales ratio is forecast to come in at 16.4 per cent in 2004-05. This will be accomplished through strong sales initiatives and continuing expense control.

The LCBO is expected to increase its capital expenditures in 2004-05. Expenditures are budgeted to increase by $5.6 million from $53.4 million to $59.0 million as we continue to open, expand and relocate stores where populations grow. In other markets, the LCBO will upgrade stores.

Our dividend to the government of Ontario is expected to increase for the eleventh consecutive year to $1.065 billion, an increase of $25 million or 2.4 per cent.

WINES

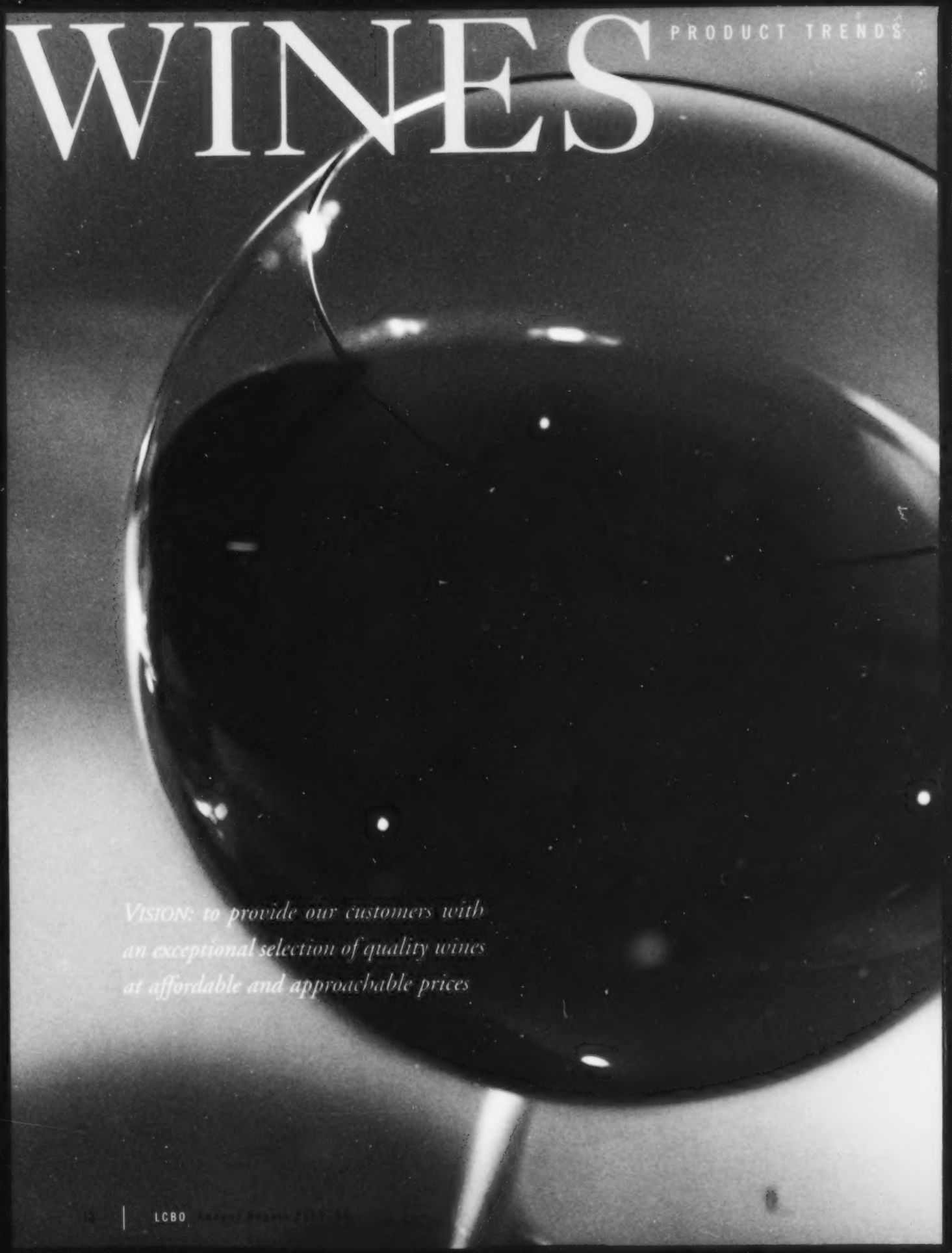
PRODUCT SERVICE



rovide our customers with
election of quality wines
pproachable prices

WINES

PRODUCT TRENDS



VISION: to provide our customers with an exceptional selection of quality wines at affordable and approachable prices

The Wines Category achieved strong results in 2003-04, growing value sales by 8.1 per cent, one per cent over plan. By volume, sales increased by 5.8 per cent, 0.9 per cent above plan.

Key factors were:

- strong growth of New World and Ontario wines
- increased sales in premium price bands
- ongoing growth in red wine sales.

New World wines (excluding Ontario wines sales, which are recorded separately) were up 14.7 per cent over last year and 5.0 per cent above plan. Leading producers were Australia, along with Chile and South Africa. Australian wine sales grew by 26.3 per cent in dollars, moving it past France into second place behind Ontario among suppliers of table wines available through the Wines Category. Ontario remains in first place with a 27-per-cent market share in dollars, followed by Australia at 18 per cent, Italy and France at 17 per cent each and the U.S. at 7 per cent.

Ontario had an outstanding year, with sales rising by 8.5 per cent in dollars and 6.4 per cent in litres. (For more information, please see page 26.)

Sales of Chilean wines grew by 9.0 per cent in dollars, well above the previous year's growth rate of 5.0 per cent. South African wine sales grew by 30.2 per cent, albeit on a much smaller base (2.2-per-cent market share).

Sales of European wines grew by 3.2 per cent over last year but did not meet the target of 4.8 per cent. Sales of wines from Italy grew by 9.5 per cent, paced by red wines from the central region. Other areas of growth in Europe were Spain and Portugal, whose red wines grew by 37.8 per cent and 18.3 per cent respectively. Sales of French wine were down by 3.0 per cent, due to declining sales of blended table wines.

Value sales grew faster than volume sales, a sign that customers continue to trade up to premium products. The strongest growth, in both litres and dollars, came in higher price bands. Wines priced $10-$12 grew by 17.9 per cent in dollars and 15.2 per cent in litres; wines priced $12-$15 grew by 12.0 per cent in dollars and 9.9 per cent in litres; and wines priced $15-$20 grew by 13.3 per cent in dollars and 12.2 per cent in litres.

By contrast, wines priced $8-$10 grew by 8.4 per cent in dollars and 7.6 per cent in litres, and wines priced under $8 grew by 2.9 per cent in dollars and 2.2 per cent in litres.

Red wine sales grew by 12.4 per cent in dollars and 10.1 per cent in litres; white wines by 4.3 per cent in dollars and 2.0 per cent in litres. For the second straight year, the LCBO sold more red wine than white through the Wines Category: 45 per cent of table wine sales by volume were red; 40 per cent were white.

Other segments within the category:

- Imported fortified wines grew by 0.1 per cent in value and declined by 2.1 per cent in litres. Noteworthy was the significant growth in sales of Port from Portugal (up 6.4 per cent in dollars and 3.8 per cent in litres)
- Imported sparkling wines grew by 3.6 per cent in dollars and 1.0 per cent in litres
- Ontario sparkling wines declined by 1.4 per cent in dollars and 2.3 per cent in litres; Ontario fortified wines increased by 0.8 per cent in dollars but declined by 3.2 per cent in litres
- Flavoured wine drinks (made with wine, carbonated water and fruit flavouring) rose 7.5 per cent in dollars and 7.6 per cent in litres.

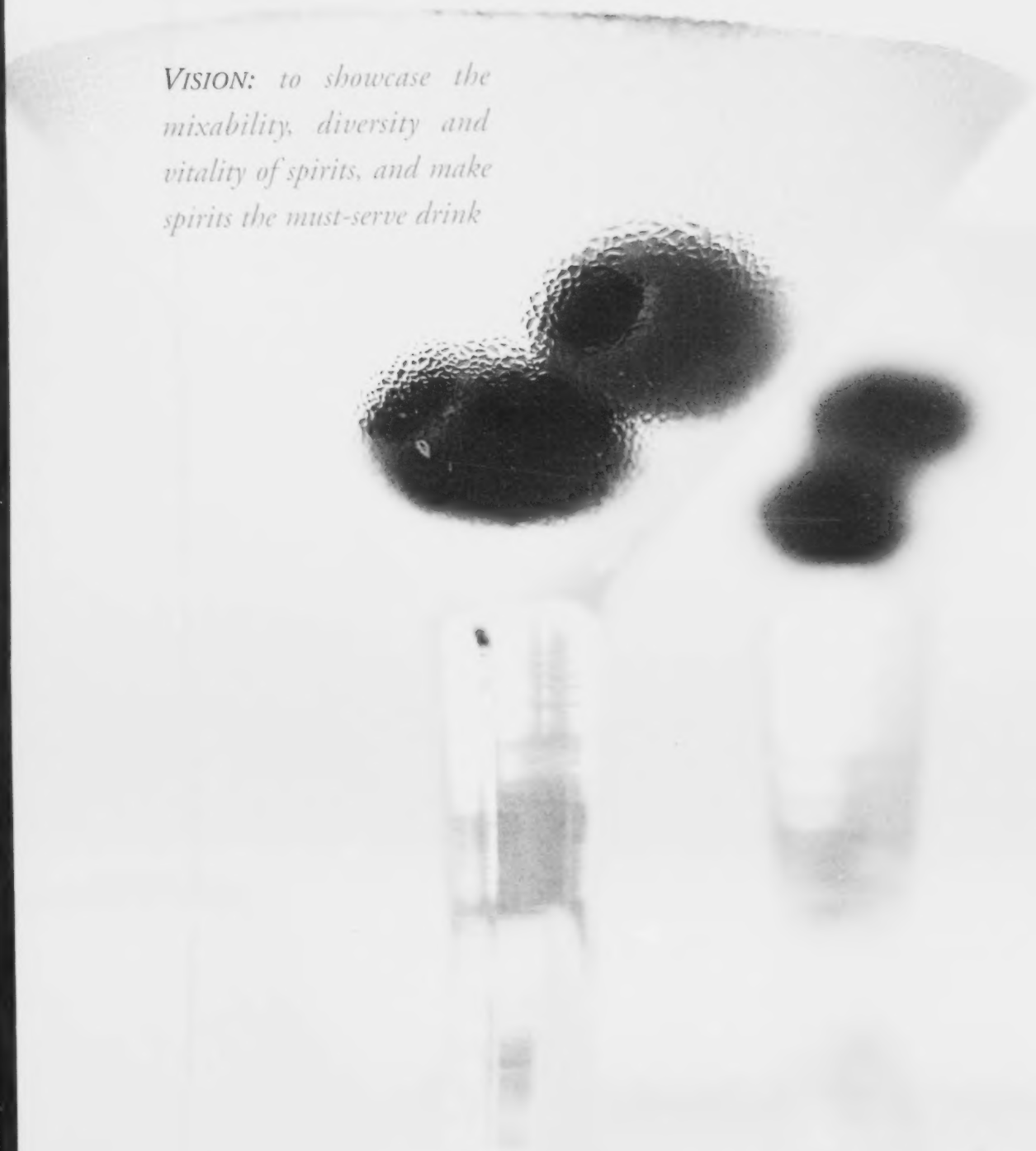
Looking Ahead:

Plans for 2004-05 include:

- increase sales by 8 per cent to $949 million
- increase margin dollars by 6.1 per cent to $467 million
- leverage customer research to develop and test new initiatives that encourage customers to visit more, browse more, try more and learn more in our stores
- continue to support and work with the Ontario wine industry to help key target customers discover their products in our stores
- continue to work with suppliers to improve product forecasting and replenishment systems and maintain optimum inventory levels
- offer customers their favourite premium wines in a greater range of sizes, including 375 mL, 1.5L and 3L options
- enhance selection of gifts for the holiday season and special occasions throughout the year.

SPIRITS

VISION: to showcase the mixability, diversity and vitality of spirits, and make spirits the must-serve drink



Sales in the Spirits Category grew by 4 per cent to a total of $1.3 billion, more than double the growth rate of the previous year and above plan by 1.7 per cent. This was an important accomplishment for a category whose products have the highest margins of any at the LCBO. (Spirits account for just 15.1 per cent of litre sales, but 40.8 per cent of net sales and 48.1 per cent of margin dollars.)

These factors helped spur the growth of spirits in 2003-04:

- two highly successful LCBO promotions – *Shake It Up* and *Whisky Rocks* – boosted overall consumer interest in cocktails, Canadian whisky and other spirits. Both promotions will repeat in 2004-05
- intriguing new flavoured products were well received by consumers, fuelling nearly half of the business unit's incremental growth in 2003-04
- a strong selection of attractive spirit-based gift packs – 79 compared to 67 in 2002-03 – led to a 6.3-per-cent increase in gift sales over last year
- displays made spirits more accessible and appealing to customers, especially women and "Echo Boomers" aged 20-29
- improved inventory flow helped ensure stores had the products customers wanted, when they wanted them – especially during the holiday season.

Greater collaboration with trade partners was a key driver of growth in the Spirits Category. Their input into promotions, and the opportunities they provided to tie on-premise activities to retail initiatives, helped us realize our goals for the year.

All segments within the category grew with the exception of duty-free sales, which declined by 12.9 per cent due to reduced travel between Canada and the U.S. The strongest growth came in two whiskey segments, American (up 12 per cent) and Irish (up 14.3 per cent). Other segments that did well in fiscal 2003-04 include:

- vodka, liqueurs and tequila, all of which grew by 6.7 per cent over the year before
- brandy and Cognac (up by 4.8 per cent)
- rum (up 3.9 per cent)
- Scotch whisky (up 3.1 per cent)
- and Canadian whisky (up 2.3 per cent).

The increase in Canadian whisky was particularly welcome, given its relative importance in the category. About 27 per cent of all spirit sales come from Canadian whisky, while other segments with higher increases, such as Irish and American whiskey, hold much smaller category shares (0.4 per cent and 1.2 per cent respectively).

The highest rates of growth were for premium and deluxe products in higher price bands. These grew by 8.4 per cent ($35-$49.95), 6.9 per cent ($50-$74.95), 9.7 per cent ($75-$99.95) and 6.3 per cent ($100 and up). By contrast, standard products priced between $20 and $34.95 declined by 1.0 per cent.

Imported spirits fared better than domestic products, growing in value by 5.8 per cent and volume by 4.0 per cent (excluding coolers). Domestic spirits increased 2.7 per cent in value and 0.4 per cent in volume (also excluding coolers). However, domestic spirits fared better against plan – up 1.8 per cent in value and 2.2 per cent in volume – than did imported spirits (up 0.8 per cent in value and 1.1 per cent in volume).

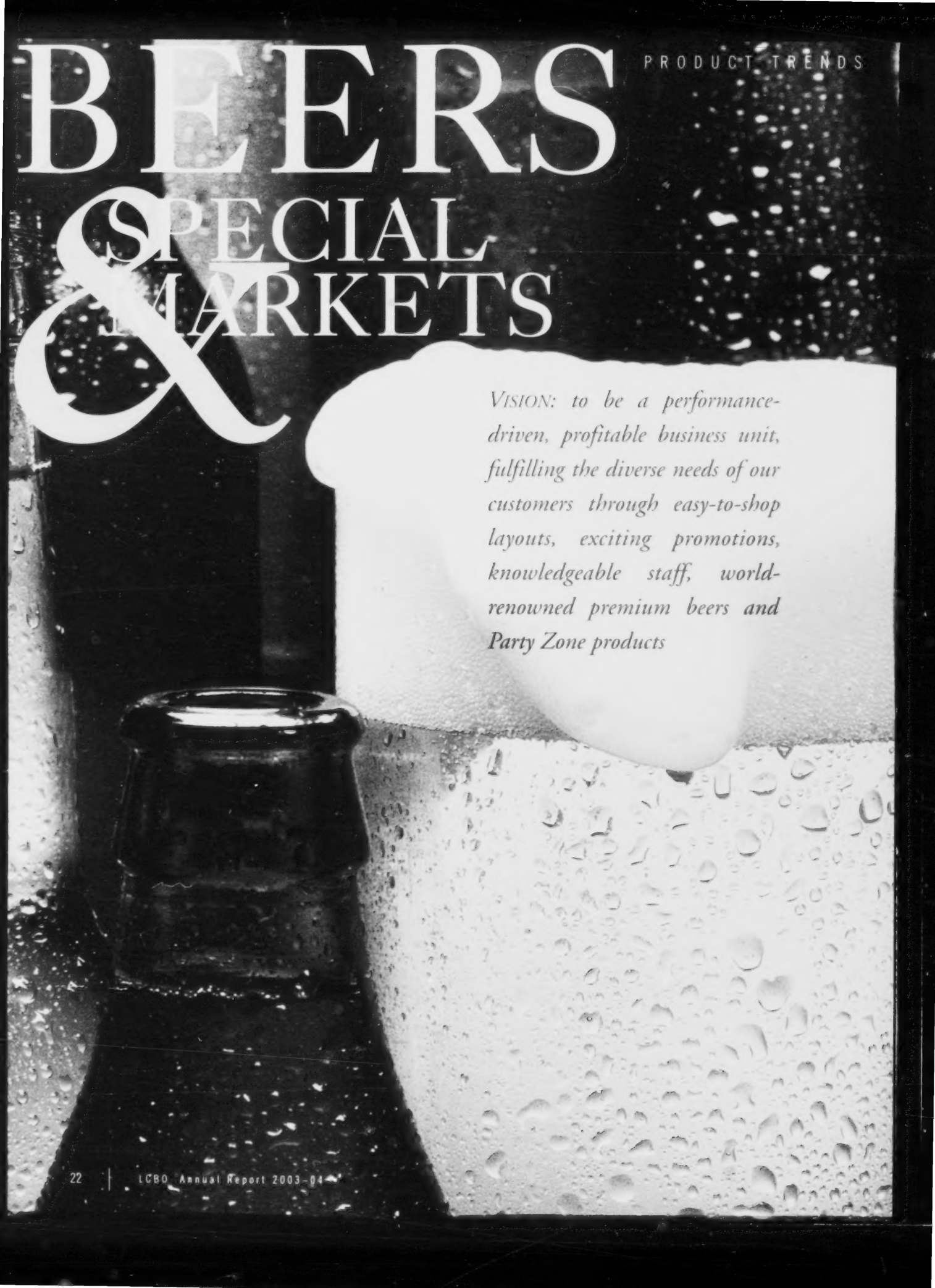
Looking Ahead:

The Spirits Category's goals for 2004-05 are:

- to increase sales by $42 million to $1.34 billion
- to increase margin dollars from $748.6 million to $774.8 million
- to attract more consumers to the category and increase shopping frequency and average dollars spent
- to be the first liquor retailer in Canada to market new and innovative spirit products
- to increase incremental sales by maximizing opportunities at checkouts and growing the gift business (66 per cent of consumers make unplanned purchases)
- to attract more new consumers such as women and Echo Boomers of legal drinking age, and educate consumers about the multiple uses of spirits
- to continue to market premium and deluxe products with higher profit margins, while providing a wide range of standard products.

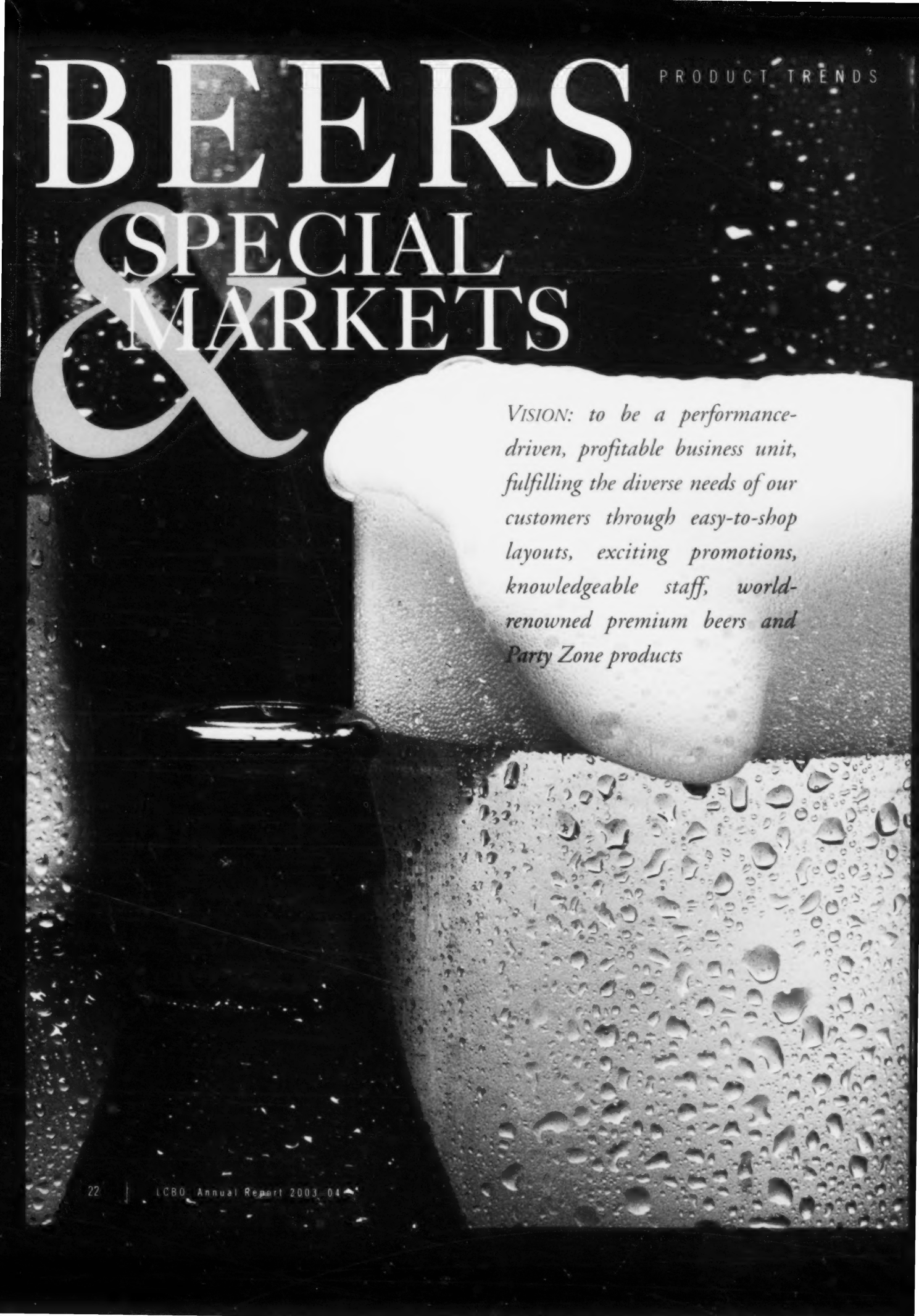
BEERS & SPECIAL MARKETS

VISION: to be a performance-driven, profitable business unit, fulfilling the diverse needs of our customers through easy-to-shop layouts, exciting promotions, knowledgeable staff, world-renowned premium beers and Party Zone products



BEERS & SPECIAL MARKETS

VISION: to be a performance-driven, profitable business unit, fulfilling the diverse needs of our customers through easy-to-shop layouts, exciting promotions, knowledgeable staff, world-renowned premium beers and Party Zone products



Beers & Special Markets (B&SM) enjoyed another year of solid growth, with sales rising to $839 million, 7.1 per cent higher than the year before. While this growth was above the corporate trend of 6.6 per cent, it fell short of plan by 4.6 per cent, due to:

- poor spring weather that hampered sales of beers and spirit coolers, which traditionally rise in warmer weather
- SARS, the war in Iraq and other concerns, which led to a decline in tourism and depressed sales to consumers and licensees
- new entries in the cooler market that did not generate as much consumer interest or sales as in past years.

Nonetheless, B&SM retained its 26-per-cent share of sales through the LCBO, up from 19 per cent just five years ago.

Among the factors that spurred this performance were:

- successful beer promotions during the summer and such events as the Super Bowl and St. Patrick's Day
- larger beer and Party Zone sections, and more refrigeration, in new and renovated stores
- improved signage that provided more information about different beer styles
- an ever-improving selection of premium domestic and international beers tailored to our customers' tastes
- a 22-per-cent year-over-year increase in gift pack sales
- a well-received training video designed to improve employees' knowledge of beer.

Five key categories account for 94 per cent of the unit's sales. Here's how they fared in fiscal 2003-04:

Imported non-U.S. beer: the largest contributor to beer sales (45.0 per cent), and the fastest growing segment (up 14.8 per cent over the year before). The LCBO offered 140 non-U.S. beers from 38 countries, including 19 countries from which The Beer Store carries no products. Beers from Belgium and Eastern Europe enjoyed the greatest growth.

Ontario beer: grew by 7.7 per cent in fiscal 2003-04 and accounted for 39.2 per cent of beer sales. This segment includes popular brands from major producers, as well as craft beers from Ontario microbreweries. Competitive pricing drove strong growth in value brands. Low-carb beers debuted strongly in September 2003 and by fiscal year-end held a one-per-cent share of beer sales.

U.S. beer: declined by 8.5 per cent, in part because the popular Busch brand is now produced in Ontario and is therefore considered domestic.

Out-of-province beer: grew by 21.9 per cent this fiscal year, largely driven by Moosehead and Alexander Keith's IPA. Other key brands come from regional craft brewers Big Rock, McAuslan and Unibroue.

Spirit coolers: grew 0.5 per cent, well below the target of 20.3 per cent, for reasons explained above. Spirit coolers are the second most important category in this business unit, accounting for 17.9 per cent of sales.

Other categories include **Cocktails-to-Go** (down 11.4 per cent); **saké** (up 7.6 per cent); **ciders** (down 5.1 per cent); **Kosher products** (up 27.1 per cent); **non-liquor products** (down 7.9 per cent); and **beer and wine coolers** (down 4.9 per cent).

Looking Ahead:

Beers & Special Markets plans to grow sales by 4.9 per cent to $879.1 million in fiscal 2004-05, and margin dollars by 8.5 per cent to $322.2 million.

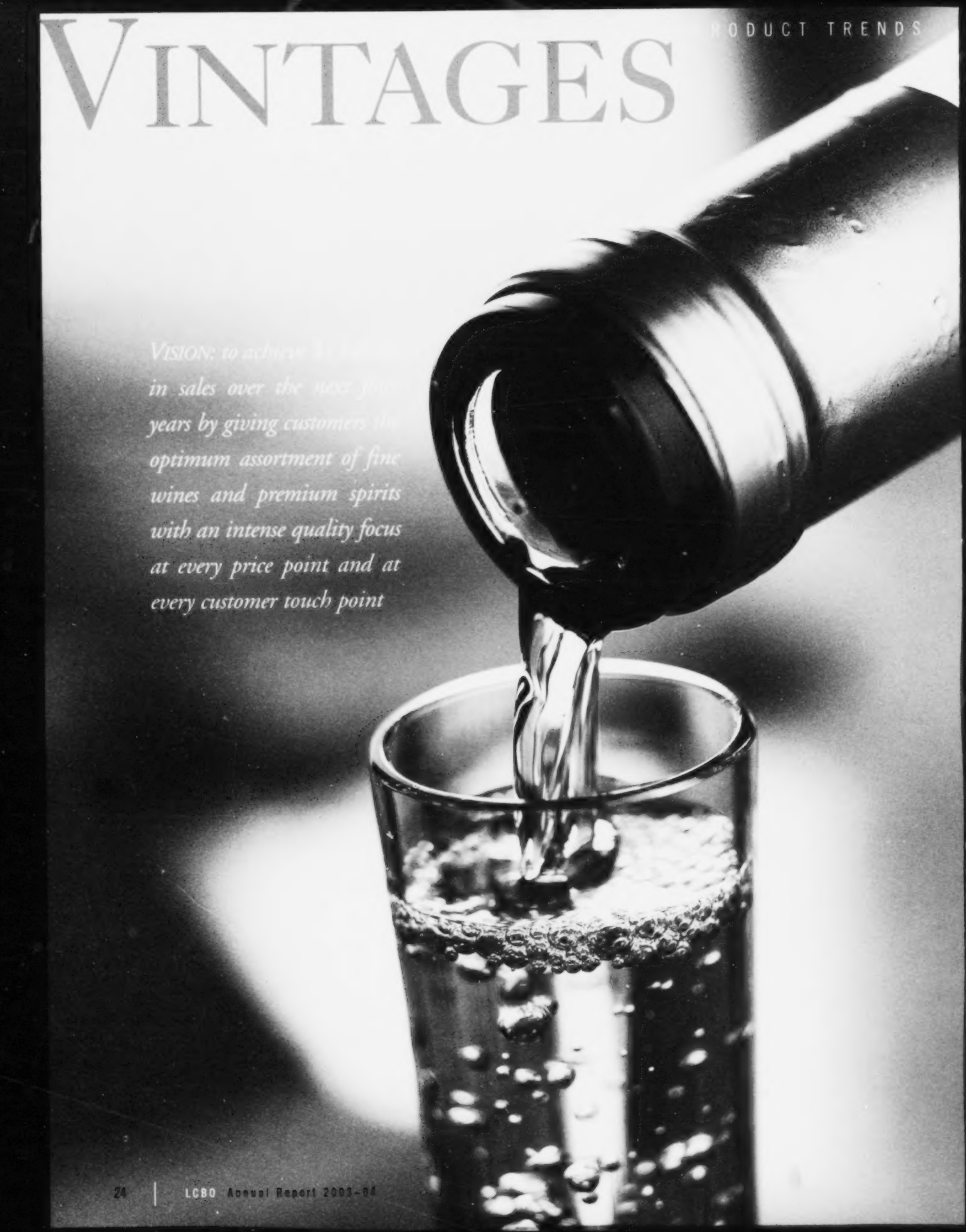
It will do this by:

- further establishing the LCBO as a destination for premium domestic and international beers
- sourcing innovative new products, including gifts, to capitalize on consumer trends
- continuing to engage customers in the unit's highest-spending age group (20-29)
- identifying and training employees in key retail stores who can serve as beer experts
- working with the Brewers of Canada, The Beer Store and major domestic brewers to maximize product flow into the LCBO system
- working with the Ontario Small Brewers Association to better promote members' products and increase sales
- offering more low-carb products to health-conscious consumers
- working with the LCBO's Retail Ethnic Contact Committee to better understand Ontario's diverse communities, particularly those with a rich cultural history of beer-making and consumption.

VINTAGES

with an intense quality focus at every price point and at every customer touch point

VINTAGES



VISION: to achieve [illegible] in sales over the next [illegible] years by giving customers the optimum assortment of fine wines and premium spirits with an intense quality focus at every price point and at every customer touch point

In fiscal 2003-04, VINTAGES brought more than 4,250 products to market through retail releases, direct marketing programs and special events – a 37 per cent increase over the year before. Net sales grew by 13.9 per cent to $176 million, well above the 5.7 per cent growth recorded in fiscal 2002-03.

VINTAGES is primarily a red wine business. In fiscal 2003-04, 64.5 per cent of sales came from red wine; 19.6 per cent from white wine; 5.2 per cent from spirits; 2.9 per cent from Icewine; 2.7 per cent from fortified wine; 2.4 per cent from Champagne; and the remaining 2.8 per cent from other products such as rosé and sparkling wine.

Its largest suppliers are France, Italy, Australia, the U.S. and Canada, followed by New Zealand, Portugal, Chile, Great Britain and Spain.

The core program at VINTAGES is the Retail Release program, which made up some two-thirds of its net sales ($117 million in fiscal 2003-04). Twice a month, more than a hundred new products in a wide range of price points are sent to approximately 180 selected LCBO stores. Many releases highlight a particular region, subregion, producer or varietal.

VINTAGES also makes products available through these programs:

VINTAGES Essentials: a core group of approximately 85 world-renowned brands that are continuously available in stores. These proven favourites (with both retail customers and licensees) demonstrate excellent price/quality ratios. Sales of Essentials products were $38 million – 21.6 per cent of VINTAGES' business – and 28 per cent higher than last year.

Futures/Pre-arrivals: futures give customers the opportunity to buy fine wines, including Bordeaux classified growths, before they are bottled, usually at a significant discount. Pre-arrivals allow customers to buy products before they are widely commercialized. Sales in fiscal 2003-04 were $9.7 million – 5.5 per cent of VINTAGES' business – and 145 per cent higher than last year. (Results vary widely year to year depending on the perceived quality of vintages being offered from different regions.)

Classics Catalogue: offers more than 1,000 new and unique products annually, including limited allocations from prestigious estates, acclaimed older vintages and other rare selections. Published three times a year, the catalogue accounted for $11.3 million in sales in fiscal 2003-04 – 6.3 per cent of VINTAGES' business – and 45.5 per cent higher than last year.

Wines of the Month: highlights two featured products priced from $15-$22. It's designed to introduce customers to wines that offer exceptional value at little or no risk. Sales this year were $5.5 million – 3.1 per cent of VINTAGES total business – and 114 per cent higher than last year.

Auction: In November 2003, VINTAGES staged Ontario's second commercial wine auction with Ritchie's Auctioneers & Appraisers, giving collectors a rare opportunity to buy or sell fine wines. More than 90 per cent of the 1,552 lots on offer were sold, bringing in a total of $2.3 million.

Events: more than 4,300 people attended VINTAGES events and tastings in fiscal 2003-04, a 15 per cent increase over the year before. These ranged from small winemakers' dinners to large-scale tastings where participants could buy on-site the products they tasted. VINTAGES events generated $1.1 million in sales this year, 10 per cent above the year before.

VQA Discoveries: VINTAGES now features a different VQA wine from Ontario or B.C. eight times a year, priced between $15 and $20. VQA Discoveries had sales of $906,000 this year, 28 per cent higher than last year.

Virtual VINTAGES: a new program launched in fiscal 2003-04, Virtual VINTAGES allows customers to buy ultra-premium and rare products, many in larger formats, directly from our suppliers' cellars. This provides our customers with greater overall selection with no added investment in inventory on our part. Sales in fiscal 2003-04 were $1.6 million.

Looking Ahead

Plans for 2004-05 include:

- increase sales by 11.8 per cent to $196.6 million
- increase margin dollars by 12.5 per cent to $85.2 million
- increase focus on premium spirits, particularly single malt whiskies and Cognacs
- highlight one "Vintages Discovery" priced $14-19 in each issue of *FOOD & DRINK* to help customers choose VINTAGES wines with greater confidence
- Greater participation in LCBO themed promotions, such as the Wines of Ontario in September 2004 and the Wines of France in February 2005
- showcase the seasonal appeal of certain products, such as rosé and spirits in summer, Port in fall and light reds for barbecue season.

WINES OF ONTARIO

The LCBO, in partnership with the Ontario wine industry, set an aggressive volume growth target of 6.0 per cent for Ontario wine sales in fiscal 2003-04 and surpassed it, thanks to successful LCBO promotions and programs supported by the Ontario wine industry, and a strong collaboration between the LCBO's Sales and Marketing and Retail divisions.

Sales grew by 8.5 per cent in dollars and 6.4 per cent in litres, well above the increases recorded the year before (4.1 and 2.1 respectively). The stronger growth in dollars indicates that customers continue to trade up to more premium brands.

The number of Ontario products available through the LCBO in fiscal 2003-04 increased from 378 to 395, while VQA listings increased from 140 to 148. The VQA designation is awarded to wines, made from 100 per cent Ontario grapes, that meet regulated winemaking and quality standards.

VQA wine sales grew by 12.0 per cent (not including sales through VINTAGES). Their volume share of still Ontario table wines rose from 16.4 per cent to 17.4 per cent.

Non-VQA varietal wines grew by 12.2 per cent in dollars and 11.7 in litres. Non-VQA blended wines grew at a slower rate: 7.0 in dollars and 5.7 per cent in litres. This suggests that customers are trading up from non-VQA blends to varietals as they learn more about wine.

Like wine enthusiasts the world over, Ontario customers are moving from white wines to reds. Sales of VQA reds grew by 19.4 per cent in dollars and 16.1 per cent in litres; whites by 11.5 per cent and 8.7 per cent. Non-VQA red varietals grew by 22.7 per cent in dollars and 22.0 per cent in litres; whites by 16.1 per cent and 16.9 per cent.

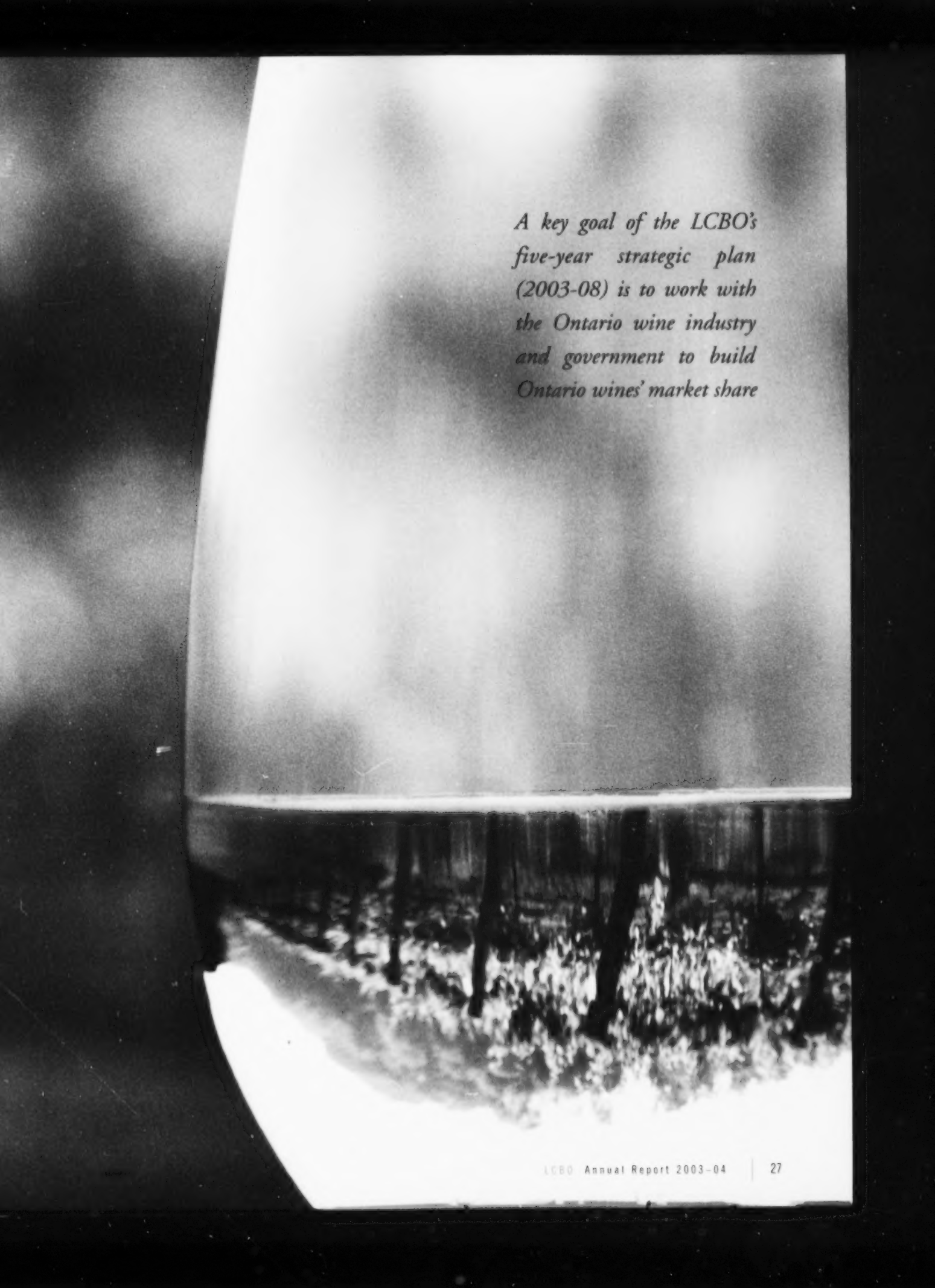
The LCBO helped grow Ontario wine sales in a number of ways. These included:

- in-store promotions, such as Discover the World of Ontario Wines
- training programs to build employee awareness and appreciation of the quality, value and versatility of Ontario wines, as well as their selling skills
- feature articles in the LCBO's consumer publication *FOOD & DRINK*
- a Craft Winery Program that helps smaller wineries establish their brands
- an Ontario Wines Superstars program that highlights two VQA wines in stores each month, and a Popular Pick program that highlights one non-VQA varietal each month
- and increased shelf space in stores.

Looking Ahead:

Plans for 2004-05 include:

- Continue to support the growth of Ontario wines through its annual fall promotion, Ontario Superstars, WOW Leader training, the Craft Winery Program and other measures
- Align LCBO strategies and programs with industry strategies wherever possible
- Maintain a volume growth trend of 6.0 per cent or greater
- Work with VINTAGES to increase sales of premium Ontario table wines and Icewines
- Continue to support the industry to help manage the impacts of smaller crops due to the harsh winters of 2003 and 2004.



A key goal of the LCBO's five-year strategic plan (2003-08) is to work with the Ontario wine industry and government to build Ontario wines' market share

A key goal of the LCBO's five-year strategic plan (2003-08) is to work with the Ontario wine industry and government to build Ontario wines' market share

InStyle
Find Your
Perfect Dress

CUSTOMER SATISFACTION

LCBO customers are more satisfied than ever with the service they receive in our stores. Three different sources support this conclusion:

- the most recent Customer Tracking Study
- Project SCORE
- the Mystery Shopper program.

The **Customer Tracking Study** is conducted twice a year, in February and August, by the independent firm Léger Marketing. Results are based on in-depth interviews with 2,400 people across Ontario who describe themselves as the primary LCBO customer in their household. They are asked about everything from store ambience and product selection to employee knowledge and social responsibility initiatives.

A record 80 per cent rated their shopping experience as eight or higher on a ten-point scale, compared to 73 per cent in 1998-99, when the study began.

Some of the highest increases were recorded in:

- friendliness and professionalism of staff
- employees' ability to match food and wine
- availability of staff when needed
- appealing store atmospheres
- bright, clean interiors
- attractive signage and displays.

The percentage who said they were dissatisfied with the LCBO barely registered at 0.4 per cent. It was the fifth straight year this measure has declined.

Every four weeks, **Project SCORE** asks 250 randomly selected LCBO customers across the province to rate their satisfaction with our stores, employees, products and services. While not as in-depth as the tracking study, it is considered a highly effective way of continuously monitoring customer satisfaction in every sales period throughout the year.

Results:

- satisfaction ranged from 74 to 80 per cent
- dissatisfaction was again extremely low, hovering between two and three per cent.

Professional third-party **Mystery Shoppers** visit larger LCBO stores at least four times a year and smaller ones twice a year.

The average overall score in fiscal 2003-04 was 88.5 per cent, compared to 86.2 in 2002-03.

Average scores were exceptional on such key measures as:

- Store Merchandising and Signage (98.6 per cent)
- Store Appearance and Maintenance (95.7 per cent)
- Store In-Stock Position (96.3 per cent).

On the important measure of how well our employees engage customers, overall scores achieved an impressive increase, from 73.3 per cent last year to 81.4 per cent this year.

Our conclusions:

- LCBO employees deliver a consistent level of service throughout the year.
- very few people dislike shopping at the LCBO
- customer satisfaction at the LCBO is not only high, it is increasing.

Independent research shows customers are more satisfied than ever with the service they receive in LCBO stores. Some of the highest increases were recorded in the friendliness and professionalism of employees and their ability to match food and wine.

UPGRADING THE STORE NETWORK

New and renovated LCBO stores are designed to be bigger, brighter and better located than the stores they replace. This not only increases customer satisfaction in measurable ways, but increases sales that ensure a solid return on LCBO's capital investment.

Retail capital decisions at the LCBO are guided by extensive customer research and market analysis to ensure they meet the needs of urban and rural communities of all sizes, and by rigorous financial analysis. The business case developed for each capital project includes a forecast of incremental expenses and sales – netting out both current sales growth trends and negative impact on sales at nearby stores in the trade area – to ensure the best forecast of the project's true return on investment. Since 2002, all major new capital projects have had to show a projected return on investment of at least 12 per cent to proceed.

Following completion, the actual financial performance of new and relocated stores is reviewed annually and compared to that forecast in the original business case. Thirty-five of 42 LCBO stores opened or relocated during the last five years are performing better than forecast.

In fiscal 2003-04, the LCBO invested $32.2 million in its store network, including maintenance and repairs.

- 16 new and relocated stores opened in Bell's Corners, Brampton, Cambridge, Kitchener, London, Markham, Mississauga, Oakville, Oshawa, Tecumseh, Toronto, Val Caron, Whitby and Woodbridge
- 30 stores received cost-effective makeovers to bring colours, lighting and shelving up to current corporate standards
- in the smaller communities of Beachburg, Courtright, Dunchurch, Hensall, Magnetawan, Plevna, Port Severn and Sundridge, aging trailer stores were replaced by permanent buildings that significantly expanded their shopping area and brand selection
- 26 agency stores – partnerships with private-sector retailers – opened in smaller communities. Ontario had 181 agency stores as of March 31, 2004.

For fiscal 2004-05, renovation, relocation and expansion projects have been approved for Barrie, Bolton, Brampton, Cookstown, Guelph, Kanata, London, Mississauga, Nepean, Pickering, Scarborough, Thunder Bay, Toronto, Unionville, Windsor and Woodstock.

The LCBO will also continue to do cost-effective upgrades throughout the province, to improve as many stores as possible. Between now and the end of 2008, the LCBO plans to spend $75 million to renovate, relocate or build 160 stores.

The LCBO's Store 5 on Queen St. East near Toronto's Beach district was one of 16 stores renovated or relocated in fiscal 2003-04 to offer improved customer service and product selection in more appealing, informative shopping environments. Left to right are Customer Service Representatives (CSR's) Maureen Moreau and Lou Ladanyi, Assistant Manager Steve Keon, CSR Michelle Dicks, Manager Jay Harper and CSR James Smith. Retail capital projects at the LCBO are guided by extensive customer research and market analysis to help ensure they meet customers' needs and contribute to improved profitability.

SERVICE
BIÈRE
CCESSORIES

ECONOMIC BENEFITS

As noted in the Management Discussion & Analysis section of this report (page 9), the LCBO transferred a dividend of $1.04 billion to the Ontario government in fiscal 2003-04 – its ninth straight record year. The LCBO's financial contributions didn't end there. In fiscal 2003-04, it also remitted:

- $308 million in Provincial Sales Tax
- $423 million in GST, federal excise taxes, import duties and payments to municipalities in lieu of property taxes.

That's a total of $1.8 billion, of which $1.35 billion went to the provincial government to help reduce Ontario's deficit and pay for hospitals, schools, roads and other important government social programs, services and major capital projects.

The Ontario economy also benefits as the LCBO builds new stores or expands and renovates stores and warehouses.

Example: In fiscal 2003-04, the LCBO relocated its store in Mississauga's Meadowvale Town Centre. Analysis of the economic benefits using a Statistics Canada model shows the project created 14 construction jobs and generated an estimated $1.5 million for the local economy.

With 15 stores renovated and relocated in fiscal 2003-04, and extensive work done to expand warehouses in London and Whitby, the total number of jobs created during the fiscal year is estimated at 142. An estimated $13.7 million was generated for local economies.

Other industries and suppliers benefit from LCBO's business growth and capital investments as well. These include beverage alcohol suppliers, whose sales tend to increase in new stores, as well as the companies that provide their bottles, labels, packaging and transportation. Logistics and information technology vendors and manufacturers of refrigeration units, fixtures and other store materials also benefit, in turn creating more jobs and spin-off benefits for the Ontario economy.

AWARDS

Two key determinants of customer satisfaction at the LCBO are appealing store environments and well-trained employees who can provide helpful, knowledgeable service. The LCBO's success in these areas is measured in heightened customer satisfaction, in the return on investment new and renovated stores achieve and in awards won in open competition against other major retailers.

The LCBO added a number of such awards in fiscal 2003-04. These included:

- Retail Council of Canada *Retail Marketing Award* (for the *Shake It Up* 2003 spirits promotion)
- Retail Council of Canada *Canada Post Excellence in Multi-Channel Retailing Award* (for the *Ciao Italia* 2003 promotion).

The LCBO also garnered six awards for its creation of the flagship Summerhill store in the historic North Toronto train station:

- Ontario Association of Architects 2004 *Architectural Excellence Award*
- National Association of Store Fixture Manufacturers *Retail Design Award* and *Store Fixture Award*
- The Institute of Store Planners/Visual Merchandising & Store Design Magazine *First place: Specialty Food Shops*
- *National Post* Design Exchange Awards *Award of Merit (Interiors)*
- International Council of Shopping Centres (ICSC) *Merit Award.*

The LCBO was also recognized with a 2004 Business Excellence Award from the North York Chamber of Commerce for its store in Bayview Village Plaza, Toronto.

The LCBO product-knowledge training video *Shelf Talk*: *Alsace* won four awards in fiscal 2003-04:
- New York Festivals' International Film and Video Awards *Gold World Medal, Technical Training category*
- U.S. International Film and Video Festival *Gold Camera (Training & Education)*
- International Association of Business Communicators *Ovation Award of Excellence*
- Canadian Corporate Television Association (CCTA) *Special Award of Merit.*

Two other staff-training videos won New York Festivals awards in fiscal 2003-04: one that showed how beer sales contribute to LCBO profits and customer satisfaction and one that explained how to help customers with food-beverage matching. The LCBO's television commercial *Innuendo*, produced in partnership with MADD Canada to fight impaired driving, won a Silver Award at the 2004 Summit Creative Awards competition.

The LCBO has won well over 100 awards for store design, staff development, innovative retailing and communications in the past 10 years. These include some of the most prestigious awards in the retail industry, including the Outstanding Business Achievement Award (2000) from the Ontario Chamber of Commerce and the Retail Council of Canada's Innovative Retailer of the Year (1997 and 1998). It has also won Retail Council of Canada awards for Social Responsibility (1997) and Staff Motivation and Development (1998).

INTEGRATED MARKETING

LCBO's new brand vision, *Discover the World*, calls on employees to guide customers on a journey of learning and discovery, demystifying the products we sell and taking the perceived risk out of their purchases.

Integrated marketing promotions help bring this vision to life. They ensure a consistent brand image through every point of contact, including in-store signage and displays; advertising; articles in our consumer publication, *Food & Drink*; and the LCBO's Internet site (*www.lcbo.com*).

Major promotions in 2003-04 focused either on a particular country or region or a product category. Working with suppliers, we designed them to capitalize on trends in beverage alcohol and seasonal opportunities, and to give customers the information and tools they need to entertain easily and responsibly.

One of the most successful was *Ciao Italia*, which was honoured in June 2004 with the Canada Post Excellence in Multi-Channel Retailing Award from the Retail Council of Canada.

Ciao Italia ran in all LCBO stores from February 3-29, 2004. Its goal was to raise awareness of the quality, value and versatility of Italian wines – the fastest-growing Old World subset of the LCBO's Wines Category – as well as other beverage alcohol products.

The promotion showcased more than 200 Italian wines, as well as fortified wines, brandies, grappas and liqueurs.

Marketing elements included:

- a consumer's wine guide that focused on popular winemaking regions
- free-standing inserts (FSIs) in major urban newspapers, as well as radio commercials and electronic billboard advertising at one of Canada's busiest intersections
- Internet promotion
- consumer tastings
- a contest that gave consumers a chance to win "Six nights under the Tuscan sun"
- and compelling in-store signage, displays and music.

Each component was designed to evoke the warmth, romance and hospitality of Italy.

Sales of Italian wines soared during *Ciao Italia*, thanks to a combination of integrated marketing and collaborative planning between the LCBO and its suppliers that resulted in a strong selection of products and fully stocked inventories to maximize sales opportunities. This helped Italy move past France into third place among Wines Category suppliers. (Ontario remains number one by a wide margin, followed by Australia.)

Volume sales of all Italian wines rose by 27.6 per cent over the same period the year before, while value sales rose by 32 per cent. Both figures beat the targets set for the promotion.

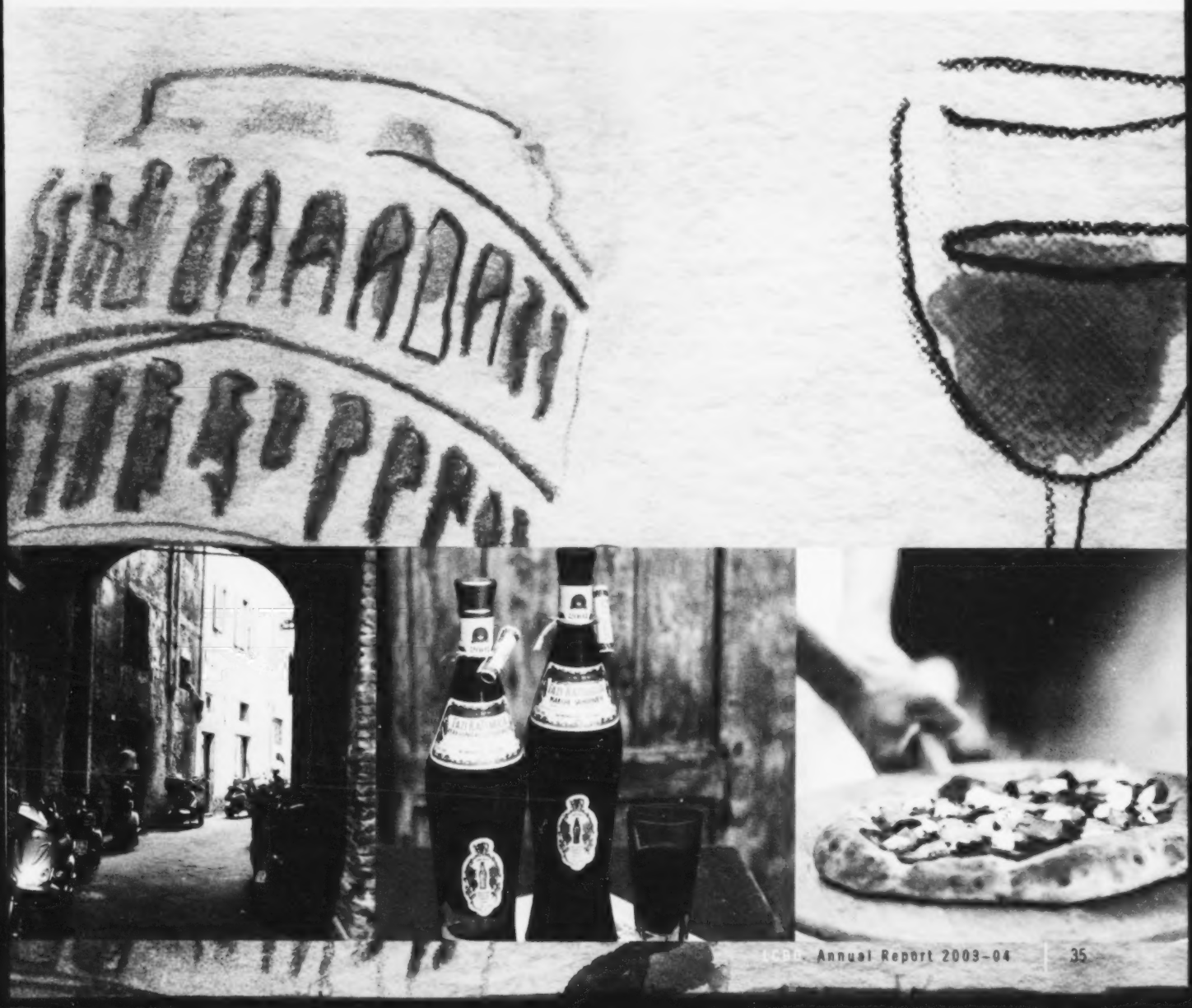
Featured brands rose by 57.6 per cent in volume and 59.5 per cent in value during that same timeframe.

Other integrated LCBO promotions in 2003-04 included *Great Whites, Sizzling Coolers, Party Zone, Shake it Up, Wines of Ontario, Holiday Wrapped Up, Whisky Rocks* and *Taste the World of Beer.*

Together, they helped the LCBO achieve a number of key strategic objectives: increased consumer knowledge and satisfaction; increased profitability due to growth in sales of premium products; growth in sales of Ontario wine; and improved collaboration with suppliers.

A number of the most successful promotions will repeat in 2004-05, including *Shake It Up, Whisky Rocks* and *Holiday Wrapped Up*, along with new ones that focus on red wines, spirit coolers, beers, backyard entertaining, products from France and hot global trends.

Long-range promotional plans such as this help us and our suppliers better co-ordinate marketing efforts and help ensure sufficient supply of products that create interest among consumers and encourage their voyages of discovery at the LCBO.



QUALITY ASSURANCE

Every product sold in LCBO stores must first be tasted, tested and certified by the LCBO's world-renowned Quality Assurance (QA) laboratory.

QA's primary goal is to ensure all products sold by the LCBO are safe to consume, authentic and meet standards set out in Canada's *Food and Drugs Act* and *Consumer Packaging and Labelling Act* and their related regulations.

Registered under ISO9001:2000 and under ISO/IEC17025, a designation specific to chemistry laboratories, QA's Quality Management System meets the high standards set by the Geneva-based International Organization for Standardization.

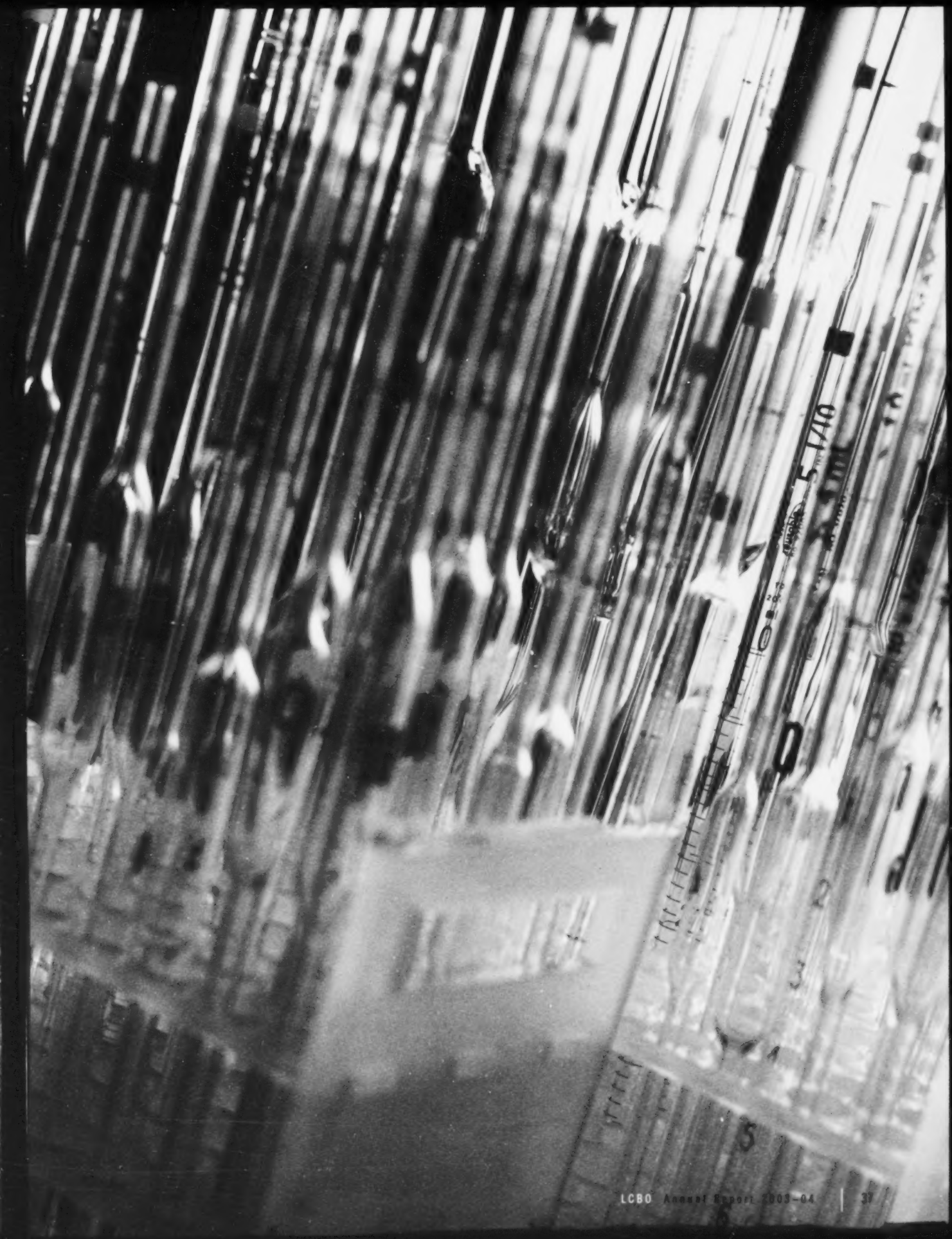
Key accomplishments in fiscal 2003-04:

- 367,870 laboratory tests were performed on 15,728 products. Some eight per cent were rejected because they were defective, improperly labelled or did not meet other QA standards
- more than 5,000 products were tasted to ensure they met high standards set by the LCBO and, where applicable, the Vintners Quality Alliance Ontario (VQAO)
- more than 2,100 labels and 500 cartons for new products were reviewed to ensure they complied with government and LCBO standards
- some 300 products were tested on behalf of enforcement agencies to determine whether they had been illegally manufactured or smuggled into Ontario
- turnaround time for processing samples in fiscal 2003-04 was 3.5 days on average, down from five working days in fiscal 2002-03 and 20 working days in 1996-97.

QA performed many other functions for the LCBO and its stakeholders in fiscal 2003-04:

- it supported the VQAO by conducting tastings, packaging reviews, laboratory analyses and quality assurance audits, and by helping members develop and adhere to the industry's technical standards
- it worked with Brock University's Cool Climate Oenology and Viticulture Institute to guide its curriculum and research directions
- in collaboration with suppliers, agents and the Canadian Food Inspection Agency, it continued to build a database on potential allergens in beverage alcohol products, such as liqueurs made with nuts or chocolate.

In collaboration with colleagues in the wine industry and academia, Dr. George Soleas, VP of Quality Assurance, continued to conduct and publish research into compounds in wine that might benefit human health, such as antioxidants believed to prevent coronary heart disease and cancer; compounds that cause cork taint; the potential hazards of pesticide residues in grapes and wine; and other issues of interest to grape growers, winemakers and consumers.



IMPROVING PRODUCT FLOW

To offer customers the best possible service and selection in the most cost-effective way possible, the LCBO undertook a number of initiatives in fiscal 2003-04 to improve the way product flows from suppliers to store shelves. These initiatives were a collaborative effort between a number of LCBO divisions and business units – Finance & Administration, Supply Chain, Sales and Marketing, Logistics, Information Technology and Retail – as well as key suppliers and agents.

These improvements had the intended result of reducing net investment in inventory from $112 million in 2001 to $27 million in 2004, a 77-per-cent reduction in a period of increasing sales and volumes. In fiscal 2003-04 alone, the reduction in net inventory investment was 43 per cent, which enabled the LCBO to improve efficiency and its financial position.

Key accomplishments in 2003-04 fall into three areas:

- Supply Chain
- The Logistics network
- Collaborative forecasting.

Supply Chain – Store Service Project

Under this ongoing initiative, stores change the way they order and receive stock, implementing best practices to eliminate unnecessary product handling and free staff to better serve customers. (By fiscal year end, some 145 LCBO stores had implemented Supply Chain practices.) The project also helps ensure these stores are stocked with a core assortment of popular products, complemented by a portfolio of products tailored to local consumer tastes. In fiscal 2003-04, average sales growth in Supply Chain stores was two per cent higher than in other LCBO stores: 7.5 per cent vs. 5.5 per cent.

Supply Chain stores also achieved greater reductions in inventory in fiscal 2003-04: an average of 27 per cent, compared to 19 per cent at other LCBO stores. The in-stock position was also slightly higher in Supply Chain stores (91.2 per cent of listed products vs. 90 per cent in other LCBO stores).

Other highlights in fiscal 2003-04 included:

- A new Web site for agents and suppliers, *Trade Resources Online*, which provides much of the information and forms they need to work collaboratively and effectively with the LCBO on product ordering and replenishment. The site will be enhanced over time to provide suppliers with more tools, resources and information they need.
- A new Supplier Alliance Joint Performance Scorecard that measures the performance of the LCBO and key vendors against agreed-upon standards, to help deliver maximum customer satisfaction at competitive costs.
- An improved seasonal inventory build strategy that saw sales during the holiday season increase by four per cent, while total inventory levels dropped by 24 per cent with no negative impact on service levels.

The Logistics network

LCBO completed a $7-million expansion of its London warehouse that almost doubled its size. It can now serve some 300 LCBO stores and Beer Stores in Western Ontario, an increase of 30 per cent.

- Square footage increased from 250,000 sq. ft. to 490,000 sq. ft.
- Storage capacity increased from five million cases to 12 million cases.
- Output increased by a third, from 20,000 cases per shift to 30,000 cases per shift.
- The number of loading bays increased from 10 to 26.

Work also began on expansion of the LCBO's main Durham warehouse in Whitby, which will increase capacity by 25 per cent. Eleven more shipping doors are being added to improve service to LCBO stores and Beer Stores.

Collaborative forecasting

In fiscal 2003-04, the LCBO and key suppliers and agents pilot-tested a Collaborative Planning, Forecasting and Replenishment (CPFR) system that combines sales forecasts developed jointly by the LCBO, suppliers and agents, and tracks and monitors forecasts versus actual sales. Its key goal is to ensure a continuous stream of products to meet the LCBO's requirements.

Taking part were 12 agents representing 25 suppliers whose major brands account for about one-quarter of LCBO sales.

Participants used a promotional planning calendar that plots key LCBO displays and promotions, which were planned collaboratively with agents and suppliers, over an 18-month horizon, to help determine when products would need to be replenished.

The goals of the pilot were to:

- better match product flow to promotions and seasonal variations
- reduce the lead times needed to import products from overseas
- reduce stock-outs
- increase inventory turns
- improve customer satisfaction
- and achieve cost savings from operational efficiencies.

Based on positive initial results, the pilot is being expanded to include more agents and suppliers in 2004-05.

SOCIAL RESPONSIBILITY

As a provincial government enterprise and caring retailer, the LCBO plays a leadership role in promoting the socially responsible use of beverage alcohol, and takes every possible step to help ensure only the right people are served in its stores.

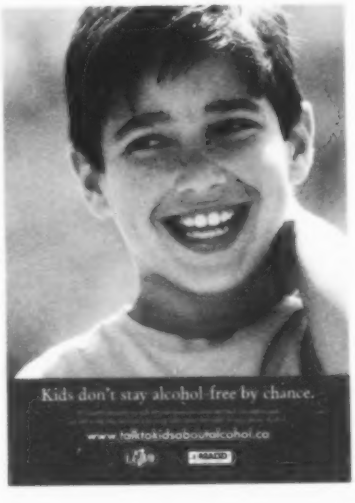
Here are some initiatives the LCBO undertook in fiscal 2003-04 to fulfill this key element of our mandate.

Challenge and Refusal

- Employees challenged 1.2 million customers who appeared underage or intoxicated, or were believed to be buying alcohol for minors or intoxicated people. That's a seven-per-cent increase over the previous year.
- Nearly 70,000 people were refused service – about 70 per cent of whom appeared underage and could not provide valid ID.
- We issued 3,985 BYID tamper-resistant photo ID cards. Some 28,000 BYID cards have been issued since 1996.

Promoting responsible consumption

- LCBO published and distributed a number of booklets with tips and information on responsible hosting, including a holiday season guide with non-alcoholic "mocktail" recipes.
- Posters in stores in November and December urged customers to plan ahead and "Leave the car at home" if they planned on drinking.
- An information campaign reminded young people they don't need to drink to have fun on prom night. Elements included in-store posters and tips for students and parents that were available in stores, on the LCBO Web site and via our toll-free Infoline. These materials were sent to all Ontario high schools to help educators inform their students about smart, safe choices.
- In partnership with MADD Canada, we developed and launched a new interactive Web site to help parents talk to pre-teens about alcohol (*www.talktokidsaboutalcohol.com*).
- We supported many school- and community-based initiatives against impaired driving, as well as the year-round provincial Drive SAFE/RIDE program.
- During each LCBO thematic promotion, we promoted social responsibility by posting messages on our corporate Web site and placing cling vinyl signs in stores.



Advertising

- A new TV commercial, created in partnership with MADD Canada, encouraged people to stop drinking and driving – any way they can. The commercial, called *Innuendo*, was about a woman who took away the car keys of a colleague who intended to drive home from a party after drinking.
- Five ads created for the LCBO's consumer magazine *Food & Drink* featured LCBO employees who embody our commitment to quality, charity, community, customer service and social responsibility.
- All stores received materials to help them place social responsibility ads in local media, to promote responsible use of alcohol and deter impaired driving and underage drinking.

LCBO employees challenged more than 1.2 million would-be customers who appeared underage or intoxicated in fiscal 2003-04 to help ensure only the right people were served in our stores. In this photo, Customer Service Representative Mavis Lecoe of Store #35 in Oakville checks a customer's BYID card to confirm her age. The tamper-resistant cards are produced by the LCBO to help its employees confirm the ages of would-be customers who appear younger than 25.

Fundraising

The LCBO, its employees and suppliers raised more than $1 million for charity in fiscal 2003-04. Highlights included:

- more than $400,000 collected for MADD Canada and other good causes through donation boxes at checkouts and other in-store campaigns
- $150,000 raised through three *Wine Aid* events to help Ontario's hospitality workers recover from the setbacks of SARS and other blows to the tourism sector
- a record $165,000 raised for the United Way through employee donations and special events
- $130,000 for We Care, to help send children with disabilities to summer camp
- $90,000 for Toronto's Hospital for Sick Children at a golf tournament and other local events
- $70,000 for Camp Oochigeas, which provides summer getaways to kids with cancer
- more than $40,000 for various charities from the sale of compilation CDs at LCBO checkouts.

Environment

- LCBO contributed $5 million in fiscal 2003-04 (and $25 million since 1998) to help Ontario municipalities cover costs of recycling beverage alcohol containers through the Blue Box Program. We will contribute $10 million more over the next two years.
- We recycle corrugated cardboard, fine paper, polystyrene, bottles, cans, newspapers, batteries, printer cartridges, data tapes and other materials.
- We contribute to non-profit environmental organizations such as the Recycling Council of Ontario and Pollution Probe, and require suppliers to minimize packaging.

PUBLIC SECTOR DISCLOSURE ACT

The *Public Sector Disclosure Act*, passed by the Ontario Legislature in 1996, requires Ontario's public sector organizations to disclose annually the names, positions, salaries and taxable benefits of employees whose employment income is $100,000 or more a year. In keeping with the requirements of the Act, LCBO submits the following information for calendar 2003.

Salaries listed may include overtime payments, pay received for acting assignments during the 2003 calendar year; unused Management Compensation Option (MCO) days taken as cash in lieu of days off; or performance bonuses the LCBO pays to help attract and retain the staff it needs to meet its strategic and business objectives.

Name	Position	Employment Income	Taxable Benefits
Alexopoulos, John	Manager, Retail Accounting	$102,515.58	$234.90
Araujo, Vic M.	Gen. Mgr., Operations, Durham	$102,671.47	$234.90
Ashdown, Tony D.	Director, HR Development	$126,081.11	$269.40
Balarajan, Ponnambalam	Consulting Tech. Systems Specialist	$100,611.05	$221.98
Bartucci, Ron	Director, Traffic, Customs & Excise	$126,080.57	$269.40
Bidian, Catalin	Sr. Programmer Analyst	$100,312.10	$167.16
Blythe, E. B.	Mgr., Financial Quality Assurance	$102,454.79	$234.90
Bonic, Jacqueline E.	VP, Store Dev. & Real Estate	$155,366.62	$325.58
Bourre, Don	Director, Eastern Region	$146,808.95	$2,118.64
Brandt, Andrew S.	Chair & CEO	$139,115.93	$5,308.00
Browning, J. A.	Sr. VP, Finance & Admin.	$176,926.77	$13,465.12
Buck, Peter D.	Director, HR Services	$146,809.11	$307.64
Burns, Tamara L.	VP, Merchandising	$159,607.44	$339.70
Busby, Michael D.	Database Administrator	$100,500.93	$204.68
Cardinal, Nancy J.	VP, Marketing Communications	$168,371.77	$348.66
Chu, Hang-Sun	Sr. Systems Analyst	$106,867.42	$204.68
Clevely, R.	Director, Central Region	$120,043.73	$1,723.62
Collins, Robert J.	Business Unit Director	$139,186.29	$295.11
Davio, R. A.	Manager, Pricing Administration	$112,472.28	$251.16
Downey, Robert K.	Sr. VP, Sales & Marketing	$175,542.43	$13,465.12
Dutton, R. A.	Dir., Financial Planning & Dev.	$155,010.74	$325.58
Ecker, Roy W.	Sr. VP, Retail Operations	$172,950.27	$13,211.12
Farrell, Michael	Dir., Wholesale Customer Mgmt.	$112,493.99	$209.08
Fehr, Claudius	Category Manager, Vintages	$103,175.82	$234.90
Fisher, R.G.*	Director, Western Region	$189,816.25	$315.96
Fitzpatrick, Mary	Sr. VP, Gen. Counsel & Corp. Sec.	$176,926.77	$13,465.12
French, Robert G.	District Manager	$102,212.71	$377.90
Graham-Prentice, Laura	Director, Marketing	$105,476.20	$237.72
Green, Michael R.	Solicitor	$146,136.44	$307.64
Hartmann, Ursula	District Manager	$100,501.58	$534.90
Holloway, Brian	Director, Applications Systems	$141,684.47	$307.64
Huynh-Liu, My Lan L.	Sr. Systems Analyst	$100,163.05	$204.68
Jay, David	Systems Manager	$101,855.29	$234.90
Kalladeen, Nalini	Systems Manager	$101,464.43	$234.90
Kane, Murray D.	Sr. VP, Human Resources	$176,926.77	$13,465.12
Kelly, Hugh	Sr. VP, Information Technology	$176,926.77	$13,465.12
Kennedy, William	Exec. Dir., Corp. Communications	$155,366.62	$325.58
Ker, J.G.	Exec. Director, Corporate Policy	$155,366.54	$325.58
Lamantia, M.	Sr. Systems Analyst	$111,231.77	$204.68
Landy, Randi B.	Business Unit Director	$136,427.04	$300.04
Le, Nhon T.	Sr. Systems Analyst	$100,898.47	$204.68
Lee, Susan	Manager, Financial Planning	$103,435.98	$234.90
Leger, Richard	District Manager	$105,147.37	$906.90
Liddle, Wayne R.*	District Manager	$139,201.71	$478.67
Lumsden, Pat	Systems Manager	$101,464.43	$234.90
Lyons, Carol J.	Controller	$145,271.83	$307.64
MacGregor, Maralisa	Director, Supply Chain	$146,809.11	$307.64
Mallett-Thomas, Kate	Business Unit Director	$112,084.33	$263.72
Manner, Joseph	Mgr., Economic Policy & Planning	$104,138.67	$234.90
Mardirossian, G. H.*	Mgr., Information Systems Audit	$103,445.15	$234.90
Marshall, Dave W.	Director, Northern Region	$146,809.11	$1,035.64
Martin, John S.	Sr. VP, Logistics	$168,180.06	$13,465.12
McNee, J. (Andrew)	Solicitor	$143,926.61	$307.64
Misetich, David J.	Inventory Manager	$105,564.47	$242.50
Mogk-Edwards, Shari L.	Dir., Vintages Sales & Purchasing	$136,427.04	$300.04
Murphy, Peter J.	Dir., Conv. Warehousing & Spec. Svcs.	$143,926.71	$307.64
Mutlak, Theresa	Dir., Financial Reporting & Tech.	$124,071.42	$269.40
O'Brien, Barry	Director, Corporate Affairs	$128,605.96	$269.40
Peter, N. Robert	President & COO	$273,823.80	$7,106.62
Pezzot, Bruno	Director, Real Estate	$102,971.63	$237.72
Pizzolato, Bruce	Director, Durham Facility	$141,684.28	$307.64
Poulin, Robert	District Manager	$102,212.97	$423.90
Ramsay, Gary L.	Director, Applications Systems	$143,926.71	$307.64
Renton, Alison E.	Solicitor	$115,510.42	$316.32
Reynolds, Vincent	Manager, Tech. Support	$101,793.79	$234.90
Robertson, Tish L.	Systems Manager	$100,143.95	$234.90
Russell, Kevin G.	Director, Retail Planning	$104,912.25	$237.72
Salvisburg, A. N.	Dir., Customer Service & Admin.	$141,684.47	$307.64
Schmidt, Linda	Inventory Manager	$101,522.53	$238.41
Sherwood, Garfield G.*	Sr. VP, Retail	$218,689.77	$2,055.55
Skelly, John P.	Maintenance Shift Supervisor	$100,513.75	$177.78
Soleas, George	VP, Quality Assurance	$152,974.52	$325.58
Stanley, Thomas D.	Director, I.T. Infrastructure	$117,664.11	$268.62
Stephens, Mike	Director, Retail Inventory Mgmt.	$118,652.68	$1,085.64
Sutton, Shelley	Director, Strategic Planning	$128,213.38	$269.40
Tang, K. (David)	Consulting Tech. Systems Specialist	$103,113.90	$234.90
Thibodeau, Donald L.	District Manager	$102,212.97	$1,425.90
Toner, David J.	District Manager	$103,175.82	$440.90
Tughan, William H.	Director, Resource Protection	$126,081.16	$269.40
Turner, Jim H.	Director, Western Region	$146,808.95	$861.64
Van Kessel, Renee D.	Solicitor	$123,653.81	$307.64
Walker, R. Lila	Dir., Compensation & HR Admin.	$126,642.97	$269.40
Whitelaw, Richard J.	Treasurer	$145,271.76	$307.64
Wilson, Tom J.	VP, Vintages	$155,366.62	$325.58
Wood, J. R.	District Manager	$102,671.47	$3,238.90
Wright, Brian A.	Database Administrator	$101,112.79	$204.68
Yazejian, Levon K.	Director, General Audit	$128,605.96	$269.40
Zachar, Wayne V.	Director, Employee Relations	$146,809.11	$307.64
Zhu, Ye	Sr. Systems Analyst	$102,457.56	$169.84

* Retired during fiscal 2003-04

RESPONSIBILITY FOR FINANCIAL REPORTING

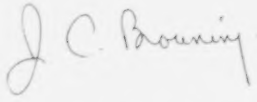
The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 11, 2004.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit and Governance Review Committee of the Board.

The Board, through the Audit and Governance Review Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit and Governance Review Committee, comprised of three Members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Provincial Auditor to satisfy itself that each group has properly discharged its respective responsibility. However, due to the expiration of the terms of two members of the Audit and Governance Committee prior to year end, the Financial Statements were reviewed and approved by the Board but not by the Audit and Governance Review Committee.

The financial statements have been audited by the Office of the Provincial Auditor. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the Auditor's examination and opinion.

On behalf of management:



Senior Vice President, Finance & Administration, and Chief Financial Officer
June 11, 2004

FINANCIAL OVERVIEW

KEY INDICATORS: 2000-2004

The following table lists three of the most important variables related to the operations of the LCBO: number of stores, permanent employees and regular products listed.

OPERATIONS

	2000	2001	2002	2003	2004
Number of LCBO Stores	602	600	599	597	598
Number of Permanent Employees	3,074	3,174	3,225	3,362	3,320
Number of Regular Products Listed	3,496	3,478	3,487	3,476	3,449

FINANCIAL INDICATORS: 2000-2004 (values in $000s)

The critical financial variables of net sales and other income, operating expenses and net income are given in the following table.

FINANCIAL (values in $000s)

	2000	2001	2002	2003	2004
Net Sales and Other Income	2,549,458	2,734,937	2,939,563	3,119,240	3,320,681
% Change/Previous Year	8.50%	7.28%	7.48%	6.11%	6.46%
Operating Expenses	414,861	468,090	489,633	525,959	548,778
As a % of Net Sales & Other Income	16.27%	17.12%	16.66%	16.86%	16.53%
Net Income	845,694	876,272	920,912	939,542	1,045,428
As a % of Net Sales & Other Income	33.17%	32.04%	31.33%	30.12%	31.48%

Note: The LCBO refers to sales in three different ways: first, gross sales, which include the federal Goods and Services Tax and the Provincial Sales Tax; second, net sales, which exclude the two sales taxes and any relevant discounts (e.g., the discounts provided to licensees by the LCBO); and third, net sales also excluding any sales through the LCBO Private Stock Program. The Net Sales and Other Income line in the table consists of net sales plus any other income (e.g., interest on investments). Gross sales are given in the LCBO Sales Channel Summary on page 48.

OPERATING EXPENSES: 2000-2004 (values in $000s)

BREAKDOWN OF OPERATING EXPENSES (values in $000s)

	2000	2001	2002	2003	2004
Salaries and Benefits	244,399	266,929	272,594	291,762	305,664
Depreciation	29,582	40,546	44,260	47,602	49,917
Other Expenses	140,880	160,615	172,779	186,595	193,197
Total Operating Expenses	414,861	468,090	489,633	525,959	548,778

The following tables show the breakdown of LCBO revenue payments for the last five years to the federal, provincial and municipal governments.

TREASURER OF ONTARIO (values in $000s)

	2000	2001	2002	2003	2004
Remitted by the Liquor Control Board: on account of profits	800,000	850,000	905,000	975,000	1,040,000
Remitted by the Liquor Control Board: Ontario Retail Sales Tax on sales through liquor	239,071	255,347	275,072	288,884	308,134
Remitted by the Alcohol and Gaming Commission:* on account of licence fees and permits	537,569	524,110	530,799	526,650	487,589
Remitted by others:** Ontario Retail Sales Tax on sales through Beer Stores and Ontario Winery Retail Stores	177,406	177,302	186,308	194,320	196,733
Ontario Retail Sales Tax on sales through agency stores	3,672	3,847	4,027	5,596	7,582
Total	**1,757,718**	**1,810,606**	**1,901,206**	**1,990,450**	**2,040,038**

* The Alcohol and Gaming Commission of Ontario, The Beer Store and Ontario winery stores are separate, non-LCBO businesses.

** Revenue payments from these entities are recorded by the LCBO and presented here in the interest of providing a global perspective of beverage alcohol retailing in Ontario.

RECEIVER GENERAL FOR CANADA (values in $000s)

	2000	2001	2002	2003	2004
Remitted by the Liquor Control Board: Excise taxes and Customs duties	267,137	278,430	284,520	294,203	307,366
Goods and Services Tax (GST)	69,718	79,056	84,885	97,459	103,464
Remitted by others: Excise taxes, GST and other duties/taxes	367,637	361,917	355,868	303,508	347,231
GST remitted on sales through agency stores	2,142	2,244	2,349	3,264	4,423
Total	**706,634**	**721,647**	**727,622**	**698,434**	**762,484**

ONTARIO MUNICIPALITIES (values in $000s)

	2000	2001	2002	2003	2004
Remitted by the Liquor Control Board: grants in lieu of realty and business taxes	10,100	11,121	12,003	11,253	12,280
Total Revenue Payments	**2,474,452**	**2,543,374**	**2,640,831**	**2,700,137**	**2,814,802**

*Note: Prior years have been restated to include property taxes on leased properties.

LCBO VOLUME SALES (in 000s Litres)

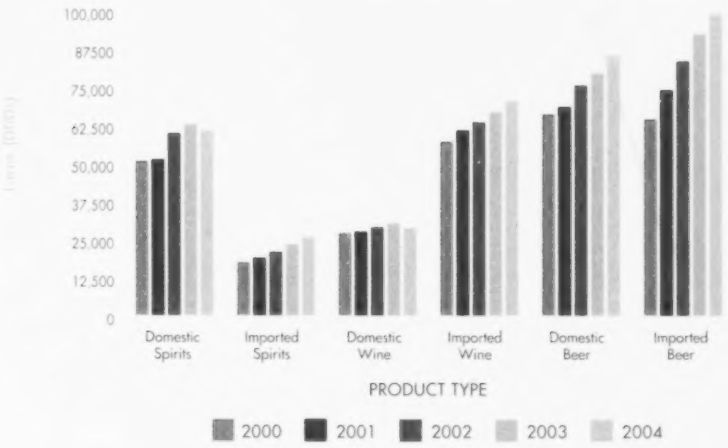
Product Type	2000	2001	2002	2003	2004
Domestic Spirits	33,310	34,286	33,897	33,570	33,704
Domestic Spirit Coolers	17,361	16,789	25,791	29,076	26,910
Imported Spirits	17,491	18,851	20,866	23,434	25,633
Total Spirits	**68,162**	**69,926**	**80,554**	**86,080**	**86,247**
Domestic Wine	26,523	26,958	28,445	29,912	28,394
Domestic Wine Coolers	489	499	549	426	233
Imported Wine	57,010	60,626	63,339	66,732	70,314
Total Wine	**84,022**	**88,083**	**92,333**	**97,070**	**98,941**
Domestic Beer	65,618	67,677	75,046	79,290	84,950
Domestic Beer Coolers	339	627	363	108	168
Imported Beer	64,451	73,756	83,337	92,242	98,656
Total Beer	**130,408**	**142,060**	**158,746**	**171,640**	**183,774**
Total Domestic	**143,640**	**146,836**	**164,091**	**172,382**	**174,359**
Total Imported	**138,952**	**153,233**	**167,542**	**182,408**	**194,603**
Total	**282,592**	**300,069**	**331,633**	**354,790**	**368,962**

Product Type	2000	2001	2002	2003	2004
Sales by Ontario Winery Stores	14,074	14,961	16,235	16,717	17,278
Sales by The Beer Store & On-site Brewery Stores	663,806	643,721	651,548	653,087	657,708

Note: LCBO beer sales figures include LCBO sales to The Beer Store (TBS). The 2003 figures for sales by TBS and on-site stores are unaudited and understate total sales due to several brewers not reporting financial statements at the time of publication.

SHARE OF VOLUME SALES

LCBO VOLUME SALES BY PRODUCT TYPE: 2000-2004



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of coolers.

SHARE OF VALUE SALES

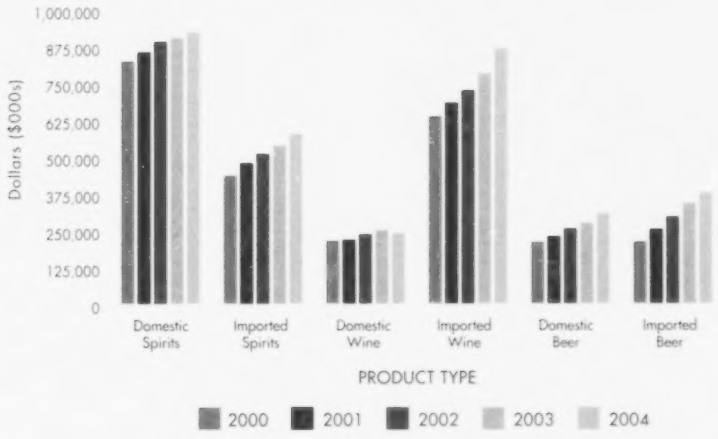
LCBO VALUE SALES (in $000s)

Product Type	2000	2001	2002	2003	2004
Domestic Spirits	739,313	771,487	764,567	761,589	788,141
Domestic Spirit Coolers	84,579	82,354	125,869	142,410	134,616
Imported Spirits	435,093	476,972	510,080	537,838	575,994
Total Spirits	**1,258,985**	**1,330,813**	**1,400,516**	**1,441,837**	**1,498,751**
Domestic Wine	211,595	214,443	234,238	249,272	239,375
Domestic Wine Coolers	1,797	1,954	2,134	1,606	922
Imported Wine	635,112	680,993	724,784	783,045	867,985
Total Wine	**848,504**	**897,390**	**961,156**	**1,033,923**	**1,108,282**
Domestic Beer	208,882	225,612	254,218	274,324	306,300
Domestic Beer Coolers	1,035	2,076	1,198	420	833
Imported Beer	210,815	252,221	295,426	339,926	376,676
Total Beer	**420,732**	**479,909**	**550,842**	**614,670**	**683,809**
Total Domestic	**1,247,201**	**1,297,926**	**1,382,224**	**1,429,621**	**1,470,187**
Total Imported	**1,281,020**	**1,410,186**	**1,530,290**	**1,660,809**	**1,820,655**
Non-Liquor	5,389	6,213	7,782	7,260	7,055
Total	**2,533,610**	**2,714,325**	**2,920,296**	**3,097,690**	**3,297,897**

Product Type	2000	2001	2002	2003	2004
Sales by Ontario Winery Stores	118,219	123,739	137,994	146,457	153,235
Sales by The Beer Store	2,021,111	2,062,297	2,174,248	2,245,378	2,302,724

Note: Value sales listed above for the LCBO and Ontario Winery Stores consist of net sales. Sales values for The Beer Store consist of net sales plus GST. Category totals provided here include sales through VINTAGES and the LCBO Private Stock Program, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

LCBO VALUE SALES BY PRODUCT TYPE: 2000-2004

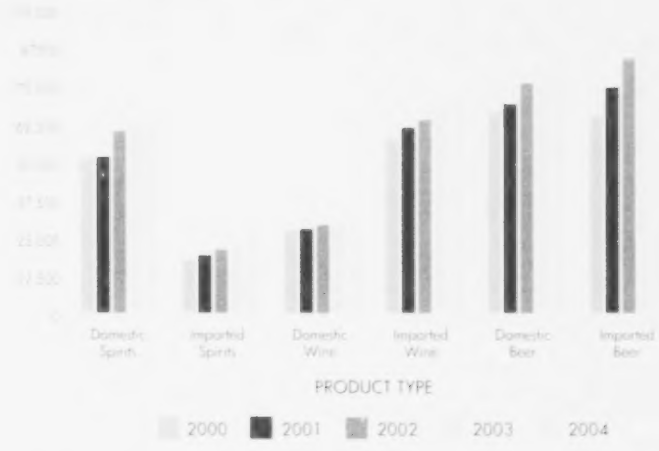


Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of coolers.

Domestic Spirits	33,310	34,280	35,897	33,570	33,704
Domestic Spirit Coolers	17,361	16,789	25,791	29,076	26,910
Imported Spirits	17,491	18,851	20,866	23,434	25,633
Total Spirits	**68,162**	**69,926**	**80,554**	**86,080**	**86,247**
Domestic Wine	26,523	26,958	28,445	29,912	28,394
Domestic Wine Coolers	489	499	549	426	233
Imported Wine	57,010	60,626	63,339	66,732	70,314
Total Wine	**84,022**	**88,083**	**92,333**	**97,070**	**98,941**
Domestic Beer	65,618	67,677	75,046	79,298	84,950
Domestic Beer Coolers	339	627	363	108	168
Imported Beer	64,451	73,756	83,337	92,242	98,656
Total Beer	**130,408**	**142,060**	**158,746**	**171,640**	**183,774**
Total Domestic	**143,640**	**146,836**	**164,091**	**172,382**	**176,359**
Total Imported	**138,952**	**153,233**	**167,542**	**182,408**	**194,603**
Total	**282,592**	**300,069**	**331,633**	**354,790**	**368,962**

Sales by Ontario Winery Stores	14,074	14,961	16,255	16,717	17,278
Sales by The Beer Store & Ontario Brewery Stores	663,806	643,721	651,548	653,087	657,708

Note: LCBO beer sales figures include LCBO sales to The Beer Store (TBS). The 2003 figures for sales by TBS and on-site stores are unaudited and understate total sales due to several breweries not reporting financial statements at the time of publication.



Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of coolers.

Domestic Spirits	739,314	771,487	764,567	761,589	788,141
Domestic Spirit Coolers	84,579	82,354	125,869	142,410	134,616
Imported Spirits	435,093	476,972	510,080	537,838	575,994
Total Spirits	**1,258,985**	**1,330,813**	**1,400,516**	**1,441,837**	**1,498,751**
Domestic Wine	211,595	214,443	234,238	249,272	239,375
Domestic Wine Coolers	1,797	1,954	2,134	1,680	922
Imported Wine	635,112	680,993	724,784	783,043	867,985
Total Wine	**848,504**	**897,390**	**961,156**	**1,033,923**	**1,108,282**
Domestic Beer	208,882	225,612	254,218	274,324	306,300
Domestic Beer Coolers	1,035	2,076	1,198	420	833
Imported Beer	210,815	252,221	295,426	339,926	376,676
Total Beer	**420,732**	**479,909**	**550,842**	**614,670**	**683,809**
Total Domestic	**1,247,201**	**1,297,926**	**1,382,224**	**1,429,621**	**1,470,187**
Total Imported	**1,281,020**	**1,410,186**	**1,530,290**	**1,660,809**	**1,820,655**
Non-Liquor	5,389	6,213	7,782	7,260	7,055
Total	**2,533,610**	**2,714,325**	**2,920,296**	**3,097,690**	**3,297,897**

Sales by Ontario Winery Stores	118,219	123,739	137,994	146,437	153,245
Sales by The Beer Store	2,021,111	2,062,297	2,174,248	2,245,478	2,302,724

Note: Value sales listed above for the LCBO and Ontario Winery Stores consist of net sales. Sales values for The Beer Store consist of net sales plus GST. Category totals provided here include sales through stores owned by the LCBO Private Store Program, and therefore do not match the Sales Trend in the Product Trends section of this Annual Report.

Note: In this chart, Domestic Spirits, Domestic Wine and Domestic Beer include sales of coolers.

PRODUCT LISTINGS

	2000	2001	2002	2003	2004
Domestic					
Spirits	518	542	486	460	471
Wine	536	499	481	469	433
Beer	403	407	426	444	473
Imported					
Spirits	586	641	672	652	690
Wine	1192	1113	1164	1187	1130
Beer	261	276	258	264	252
Total Regular Listings	**3,496**	**3,478**	**3,487**	**3,476**	**3,449**
VINTAGES Wines and Spirits	3,569	3,108	2,858	3,127	4,250
Duty-Free Listings	235	212	224	240	221
Consignment Warehouse and Private Stock	6,106	6,225	5,444	6,813	7286
Total Product Listings	**13,406**	**13,023**	**12,013**	**13,656**	**15,206**

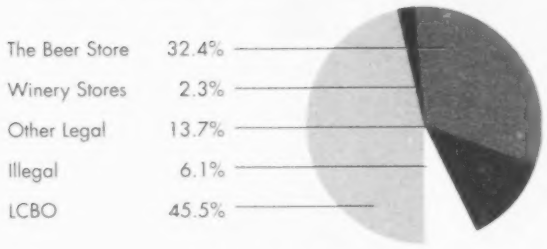
Note: The total number of regular products listed has been restated to reflect products listed for the entire fiscal year, rather than products listed in the LCBO Winter Price Book, as had previously been the case. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

LCBO SALES CHANNEL SUMMARY (in $000s)

	2000	2001	2002	2003	2004
LCBO Total Sales	2,967,710	3,177,916	3,417,729	3,622,049	3,857,394
The Beer Store Total Sales	2,324,225	2,381,289	2,522,993	2,607,077	2,638,488
Winery Retail Stores Total Sales	140,681	147,178	162,539	174,284	182,349
Other Channels:					
Legal	941,465	1,000,660	1,017,104	957,073	667,687
Homemade	59,070	49,025	48,013	50,852	148,163
De-alcoholized Beer	22,314	20,870	20,191	19,125	20,503
Illegal	455,801	405,918	432,435	455,529	442,971
Grand Total	**6,911,266**	**7,182,856**	**7,621,004**	**7,885,989**	**7,957,555**

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. LCBO and The Beer Store figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the charts below. The methodology used to estimate certain categories under Other Channels has been revised for 2004. Prior year figures have not been restated. Sales values reported under Other Channels are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively.

VALUE BY SALES CHANNEL



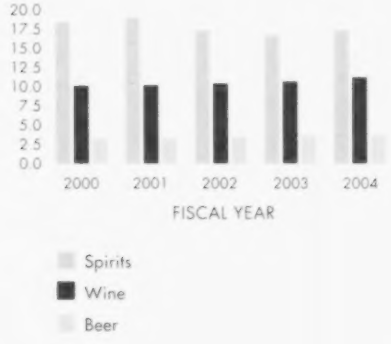
AVERAGE LCBO RETAIL PRICES PER LITRE

(prices excludes GST and PST)

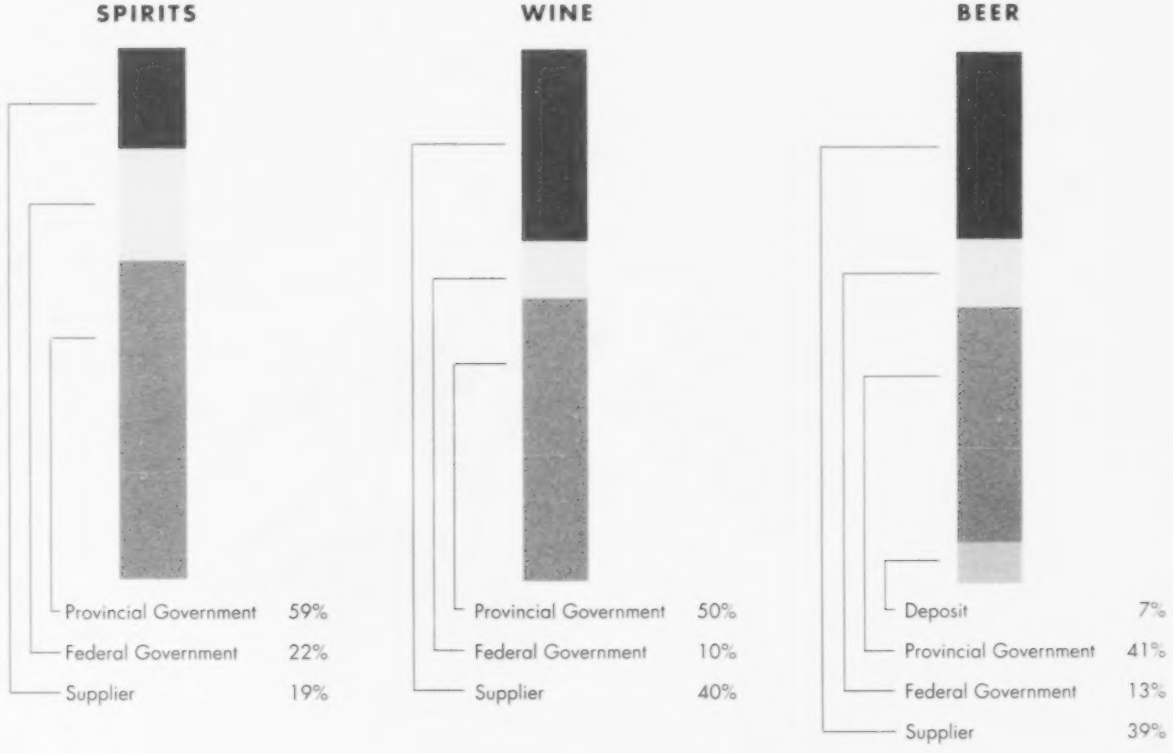
Product Type	2000	2001	2002	2003	2004
Spirits	$18.47	$19.03	$17.39	$16.75	$17.38
Wine	$10.10	$10.19	$10.41	$10.65	$11.20
Beer	$3.23	$3.38	$3.47	$3.58	$3.72
Average Transaction Value per Customer	**$29.55**	**$30.51**	**$31.05**	**$31.90**	**$32.97**

Note: Includes Coolers

AVERAGE LCBO RETAIL PRICES PER LITRE 2000-2004



REVENUE DISTRIBUTION



The tables below show the share of volume sales held by various segments within major product categories.

PRODUCT CATEGORY SHARE

Canadian Spirits	2000	2001	2002	2003	2004
Canadian Whisky	29.9%	30.3%	25.6%	24.0%	25.5%
Canadian Rum	14.5%	14.7%	12.6%	11.9%	12.7%
Canadian Vodka	14.2%	14.6%	12.7%	12.2%	13.5%
Spirit Coolers	34.3%	32.9%	43.2%	46.4%	43.0%
Canadian Dry Gin	2.1%	2.1%	1.6%	1.3%	1.3%
Other	5.0%	5.4%	4.3%	4.2%	4.0%
Imported Spirits					
Scotch	22.0%	20.2%	18.1%	16.3%	15.0%
Liqueur	18.2%	17.8%	15.6%	13.6%	12.5%
Miscellaneous Liquors	13.5%	13.6%	13.9%	12.8%	10.9%
Vodka	15.5%	16.0%	15.7%	15.0%	13.8%
French Brandy	9.0%	8.8%	8.0%	7.5%	7.3%
Spirit Coolers	0.6%	2.5%	8.6%	16.7%	21.4%
Other	21.2%	21.1%	20.1%	18.1%	19.1%
Canadian Wines					
White Table	48.4%	48.4%	49.2%	49.8%	50.3%
Red Table	24.1%	25.7%	26.6%	28.4%	30.2%
7% Sparkling	6.2%	5.6%	5.5%	5.3%	5.0%
Sherry	4.4%	4.5%	4.6%	4.5%	4.1%
Wine Coolers	1.8%	1.7%	1.9%	1.7%	0.8%
Other	15.1%	14.1%	12.2%	10.3%	9.6%
Imported Wines					
White Table	39.6%	37.6%	36.4%	34.7%	33.7%
Red Table	44.4%	46.3%	47.4%	49.4%	50.7%
Champagne	4.6%	3.5%	3.5%	3.4%	3.3%
Sherry	1.1%	1.0%	0.9%	0.8%	0.7%
Other	10.3%	11.6%	11.8%	11.7%	11.6%
Canadian Beer					
Ontario Beer	91.3%	88.4%	87.3%	85.3%	85.5%
Other Canadian Beer	8.7%	11.6%	12.7%	14.7%	14.5%
Imported Beer					
U.S. Beer	36.9%	31.0%	25.1%	18.5%	19.2%
Other Imported Beer	62.9%	68.8%	74.7%	81.3%	80.6%
Saké	0.2%	0.2%	0.2%	0.2%	0.2%

The following table shows detailed sales of wine by volume and value (LCBO sales only).

VOLUME (000s litres)

Product Type	2000	2001	2002	2003	2004
Red Wine	31,012	34,100	36,421	39,699	42,987
White Wine	34,913	35,189	35,786	36,072	37,183
Rosé Wine	3,264	2,984	2,934	2,878	2,813
Sparkling Wine	4,704	3,894	3,892	3,858	3,886
Fortified Wine	3,373	3,457	3,400	3,328	3,276
Wine Coolers	947	868	812	654	486
Other Wine	3,968	5,358	5,564	5,533	5,891
VQA Wines*	3,158	3,659	3,933	4,387	4,102

VALUE ($000s)

Product Type	2000	2001	2002	2003	2004
Red Wine	347,051	390,289	430,867	478,088	540,634
White Wine	312,901	319,344	330,730	340,611	357,794
Rosé Wine	27,699	25,091	24,703	24,236	23,787
Sparkling Wine	70,310	52,914	53,161	55,451	57,703
Fortified Wine	32,995	34,691	33,918	33,919	34,738
Wine Coolers	4,454	3,970	3,594	2,883	2,323
Other Wine	30,024	42,858	45,354	46,258	51,311
VQA Wines*	41,259	47,770	50,205	56,445	55,115

* VQA wine sales are reported in a separate consolidated total and also within each wine product category.
Note: Sales figures of wine by volume and value exclude Private Stock sales.

The following table shows LCBO spirits sales by country of origin for fiscal 2003–04.

SPIRITS 2003–04

Country	NET SALES	LITRES
CANADA	$914,600,858	60,582,248
GREAT BRITAIN	$186,736,121	10,407,074
FRANCE	$87,797,413	2,655,431
U.S.A.	$62,238,973	2,965,447
IRELAND	$54,490,798	1,973,984
SWEDEN	$38,203,103	1,762,803
ITALY	$32,594,102	1,348,184
MEXICO	$31,240,461	1,002,170
GERMANY	$15,790,807	642,719
FINLAND	$11,010,926	485,096
POLAND	$7,386,266	305,182
BARBADOS	$4,668,609	191,947
GREECE	$4,069,705	182,415
JAMAICA	$4,065,256	149,093
SOUTH AFRICA	$3,656,564	144,599
RUSSIAN FEDERATION	$3,592,388	150,816
NETHERLANDS	$3,026,200	138,834
SWITZERLAND	$2,994,397	97,207
CUBA	$1,827,855	69,344
NEW ZEALAND	$1,475,079	163,876
AUSTRALIA	$1,458,619	289,364
PORTUGAL	$1,263,232	46,210
CROATIA	$1,085,713	42,150
PUERTO RICO	$978,858	30,271
BERMUDA	$767,985	32,796
AUSTRIA	$746,463	15,519
SPAIN	$738,891	29,723
HUNGARY	$662,365	27,766
CZECH REPUBLIC	$545,678	7,802
GUYANA	$405,524	14,112
BAHAMAS	$373,380	12,342
LEBANON	$344,349	11,266
DENMARK	$325,687	15,271
REPUBLIC OF YUGOSLAVIA	$319,621	10,065
INDIA	$222,063	9,576

Country	NET SALES	LITRES
PEOPLE'S REPUBLIC OF CHINA	$213,372	9,791
CHILE	$213,330	8,464
ISRAEL	$149,868	6,339
UKRAINE	$137,254	5,704
DOMINICAN REPUBLIC	$99,644	2,660
BRITISH VIRGIN ISLANDS	$99,169	4,099
BRAZIL	$80,947	3,509
BELGIUM	$66,006	2,781
MACEDONIA	$62,336	2,587
TURKEY	$51,526	1,667
TRINIDAD	$43,071	1,308
PHILIPPINES	$22,926	996
ST. LUCIA	$21,087	807
NORWAY	$5,429	134
CYPRUS	$3,174	188
BOLIVIA	$1,310	56
GEORGIA	$1,081	18
TOTAL	**$1,482,975,839**	**86,063,809**

The following table shows LCBO wine sales by country of origin for fiscal 2003–04.

WINE 2003–04

Country	NET SALES	LITRES
CANADA	$237,680,903	28,579,955
FRANCE	$198,482,845	15,688,194
ITALY	$186,828,823	16,586,424
AUSTRALIA	$166,363,926	11,091,954
U.S.A.	$101,364,962	8,902,210
CHILE	$46,738,788	4,463,027
SPAIN	$22,278,756	1,752,067
PORTUGAL	$22,101,352	1,804,912
SOUTH AFRICA	$21,375,804	2,034,181
GERMANY	$20,553,415	1,962,841
NEW ZEALAND	$9,941,006	556,952
ARGENTINA	$6,327,627	633,325
GREECE	$4,476,010	554,978
HUNGARY	$3,412,718	434,900
GREAT BRITAIN	$2,748,568	624,006
BULGARIA	$2,129,579	276,865
JAPAN	$925,137	76,311
REPUBLIC OF YUGOSLAVIA	$923,667	113,287
ISRAEL	$918,131	80,982
CROATIA	$523,923	61,243
POLAND	$393,121	27,166
AUSTRIA	$355,404	24,193
JAMAICA	$321,962	32,268
ROMANIA	$233,256	26,919
MEXICO	$205,457	18,291
LEBANON	$204,070	10,648
DENMARK	$200,076	17,033
REPUBLIC OF KOREA	$185,073	8,442
IRELAND	$175,838	29,220
MACEDONIA	$158,043	21,171
SWITZERLAND	$109,723	4,614
CYPRUS	$87,596	7,844
SLOVENIA	$73,981	8,383
URUGUAY	$43,030	3,265
REPUBLIC OF MOLDOVA	$24,488	2,198
TUNISIA	$17,382	1,044
PEOPLE'S REPUBLIC OF CHINA	$9,898	646
GEORGIA	$3,537	233
CZECH REPUBLIC	$3,359	152
MOROCCO	$524	68
TOTAL	**$1,058,901,758**	**96,522,412**

The following table shows LCBO beer sales by country of origin for fiscal 2003–04.

BEER 2003–04

Country	NET SALES	LITRES
CANADA	$298,366,103	82,5[illegible]8
NETHERLANDS	$81,362,206	18,863,232
MEXICO	$77,954,836	16,785,200
U.S.A.	$53,815,533	16,686,076
GERMANY	$31,374,463	8,780,353
BELGIUM	$19,136,518	4,222,646
IRELAND	$15,280,980	3,421,734
GREAT BRITAIN	$15,025,587	3,904,670
BRAZIL	$10,541,357	2,181,030
DENMARK	$10,221,734	3,222,675
POLAND	$8,835,997	2,543,306
CZECH REPUBLIC	$5,760,109	1,597,[illegible]32
JAPAN	$1,985,230	517,288
TRINIDAD	$1,453,045	394,[illegible]16
JAMAICA	$1,369,890	344,654
PEOPLE'S REPUBLIC OF CHINA	$1,171,783	311,761
SINGAPORE	$625,195	187,508
AUSTRIA	$597,283	188,076
SLOVAKIA	$572,022	159,[illegible]35
ITALY	$542,767	137,281
PORTUGAL	$530,449	144,707
SOUTH AFRICA	$465,672	141,[illegible]85
NEW ZEALAND	$351,918	91,047
RUSSIAN FEDERATION	$338,938	102,582
UKRAINE	$296,832	83,062
THAILAND	$255,446	62,[illegible]95
CUBA	$233,741	54,[illegible]46
CROATIA	$210,447	57,[illegible]89
PHILIPPINES	$197,952	57,[illegible]12
GREECE	$117,786	29,342
FRANCE	$106,858	22,[illegible]34
KENYA	$96,232	20,[illegible]90
BAHAMAS	$41,884	9,[illegible]25
LITHUANIA	$41,701	12,[illegible]11
AUSTRALIA	$40,538	9,345
CYPRUS	$40,527	9,554
INDIA	$37,548	8,617
LEBANON	$14,128	3,[illegible]91
SPAIN	$11,551	2,774
TOTAL	**$639,422,786**	**167,927,[illegible]08**

Note: Net value represents net sales including VINTAGES sales but excluding Private Stock sales. In fiscal 2003-04, the LCBO sold products from 67 different countries.

AUDITOR'S REPORT

To the Liquor Control Board of Ontario and to the Minister of Economic Development and Trade

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2004 and the statements of income and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2004, the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 11, 2004

Jim McCarter, CA
Assistant Provincial Auditor

Balance Sheet As at March 31, 2004

ASSETS (in $000s)	2004	2003
Current		
Cash and cash equivalents	60,724	46,385
Accounts receivable, trade and others	28,436	22,365
Inventories	270,246	247,523
Prepaid expenses	5,812	6,619
	365,218	**322,892**
Long-term		
Capital assets (Note 5)	227,504	225,045
	592,722	**547,937**

LIABILITIES AND RETAINED INCOME		
Current		
Accounts payable and accrued liabilities	298,755	262,140
Current portion of accrued benefit obligation (Note 3)	4,924	4,508
	303,679	**266,648**
Long-term		
Accrued benefit obligation (Note 3)	35,217	32,891
Retained income	253,826	248,398
	592,722	**547,937**

Commitments and Contingencies (Notes 6 and 8)

See accompanying notes to financial statements.

Approved by:

Andrew S. Brandt
Chair and Chief Executive Officer

Perry Miele
LCBO Board Member

STATEMENT OF INCOME AND RETAINED INCOME

Year ended March 31, 2004

(in $000s)	2004	2003
Sales and other income	**3,320,681**	**3,119,240**
Costs and expenses		
Cost of sales	1,726,475	1,653,739
Retail stores and marketing	373,978	360,448
Warehousing and distribution	67,470	64,431
Administration	57,413	53,478
Amortization	49,917	47,602
	2,275,253	**2,179,698**
Net income for the year	1,045,428	939,542
Retained income, beginning of year	248,398	283,856
	1,293,826	**1,223,398**
Deduct: Dividend paid to Province of Ontario	1,035,000	970,000
Deduct: Payment to municipalities on behalf of the Province of Ontario (Note 9)	5,000	5,000
	1,040,000	**975,000**
Retained income, end of year	**253,826**	**248,398**

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS Year ended March 31, 2004

(in $000s)	2004	2003
Cash provided from operations		
Net income	1,045,428	939,542
Amortization	49,917	47,602
Gain (Loss) on sale of capital assets	(234)	(1,306)
	1,095,111	**985,838**
Increase in non-cash items		
Working capital	8,628	23,035
Accrued benefit obligation	2,742	5,850
	1,106,481	**1,014,723**
Cash used for investment activities		
Purchase of capital assets	(53,434)	(75,062)
Proceeds from sale of capital assets	1,292	1,616
	(52,142)	**(73,446)**
Cash used for financing activities		
Dividend paid to Province of Ontario	(1,035,000)	(970,000)
Payment to municipalities on behalf of the Province of Ontario (Note 9)	(5,000)	(5,000)
	(1,040,000)	**(975,000)**
Increase (decrease) in cash during the year	14,339	(33,723)
Cash and cash equivalents, beginning of year	46,385	80,108
Cash and cash equivalents, end of year	**60,724**	**46,385**

See accompanying notes to financial statements

1. Nature of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

2. Significant Accounting Policies

(a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

(c) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 years
Furniture and Fixtures	5 years
Leasehold Improvements	5 years
Computer Equipment	3 years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

(d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high-grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

3. Accrued Benefit Obligation

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers' compensation obligation.

In fiscal 2004, the cost of these employee future benefits was $7.5 million (2003 – $8.7 million) and is included in Costs and expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2004 is $40.1 million (2003 – $37.4 million) of which $4.9 million (2003 – $4.5 million) is classified as a current liability.

The cost of post-retirement, non-pension employee benefits is paid by Management Board Secretariat and is not included in the Statement of Income and Retained Income.

4. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2004, the expense was $13.8 million (2003 – $11.1 million) and is included in Costs and expenses in the Statement of Income and Retained Income.

5. Capital Assets

(in $000's)	Cost	2004 Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Land	13,473	—	13,473	13,584
Buildings	302,071	207,872	94,199	93,168
Furniture and fixtures	66,248	37,791	28,457	22,539
Leasehold improvements	177,348	113,200	64,148	62,269
Computer equipment	98,650	71,423	27,227	33,485
	657,790	**430,286**	**227,504**	**225,045**

6. Lease Commitments

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

(in $000's)	
2005	36,841
2006	35,194
2007	33,199
2008	30,741
2009	27,365
Thereafter	206,836
	370,176

7. Hedging

The Board has entered into forward foreign exchange contracts to manage the foreign exchange risk associated with its purchases from foreign suppliers. A forward foreign exchange contract is an agreement between two parties to set exchange rates in advance.

As at March 31, 2004 the Board had $4,871,250 (2003 – $4,448,340) forward foreign exchange contracts outstanding.

Credit risk is the risk that a party to a forward foreign exchange contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risk by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

9. Payment to Municipalities

During fiscal 2004, in accordance with Section 5(2) of the *Liquor Control Act*, 1990, the Board was directed by Cabinet to contribute $5 million (2003 - $5 million) to assist municipalities with their glass recycling costs. Cabinet further directed the Board to contribute $5 million annually in each of the next two years.

BOARD MEMBERS

Members of the LCBO Board, like those of other government agencies, boards and commissions, are appointed by the sitting government through orders-in-council. Appointments, up to five years, are sometimes renewed.

ANDREW S. BRANDT:
Appointed February 6, 1991
Term expires February 2006

Re-appointed in 2003 for a fifth three-year term as Chair and CEO, Mr. Brandt came to the LCBO after a long and distinguished career in the private and public sectors. He began his public-service career in Sarnia, where he served on City Council for almost a decade, including three terms as mayor. In 1981, he was elected to the Ontario Legislature as MPP for Sarnia and in 1987 was named Leader of the Ontario Progressive Conservative Party, a post he held until 1990. In the private sector, Mr. Brandt ran a successful wholesale and retail musical instrument business for many years. He is also an active and award-winning volunteer in several community organizations, including the United Way, Rotary Club, Kiwanis Club and Lambton College Foundation. During his tenure as Chair and CEO, Mr. Brandt has played a key role in the transformation of the LCBO from staid government bureaucracy to award-winning retailer, reflected in nine straight record dividend transfers to the government of Ontario.

GAYLE CHRISTIE:
Appointed June 13, 2001
Term expires June 2004

Ms. Christie is a Toronto government relations consultant who advises private-sector clients on how to work with municipalities, drawing on her experience as a former trustee, councillor and mayor of the city of York, which was amalgamated into Toronto in 1997. As mayor of York from 1978-82, she established the city's first internal audit committee and instituted other reforms to increase productivity and accountability. She then spent eight years with accounting firm Clarkson Gordon (now part of Ernst & Young), further developing her skills. In addition to her consultancy, she sits on several boards, including Humber River Regional Hospital, Runnymede Chronic Care Hospital and Yorktown Community Services.

THOM A. BENNETT:
Appointed October 11, 2000
Term expired October 2003

JOHN C. HOPPER:
Appointed September 8, 1997
Term expired September 2003

DR. MERLE A. JACOBS:
Appointed December 17, 1997
Term expired December 2003

BEV HAMMOND:
Appointed September 26, 2002
Term expires September 2005

Bev Hammond is President of Veritas Communications, an award-winning Toronto public relations and public affairs agency. Before joining Veritas, she was president of Communiqué Public Relations and Director of PR at Grey Canada. Ms. Hammond combines her agency work with experience in both the federal and provincial governments. She has been senior advisor to the federal Minister of International Trade, with responsibility for bilateral trade, and advisor to the Minister of Small Business and Tourism, as well as Communications Director and Press Secretary to Ontario's Deputy Premier and Minister of Finance, and Executive Assistant to the Government House Leader. She serves on the board, and is Chair of the Marketing Committee for Special Olympics Canada. She is also Chair of the Advisory Board of Hammond Transportation.

PERRY MIELE:
Appointed April 3, 2002
Term expires April 2005

Perry Miele joined Financial Task Force, a merchant banking and business advisory company, as Chairman in 2001. He is also General Partner of The Mentor Fund, which invests intellectual and financial capital in "emerging" marketing and communications companies. Mr. Miele brings over 20 years of experience in the advertising and marketing industry and has earned a reputation as a strategic builder of businesses. In 1987, he became a partner in Gingko, a Toronto-based integrated marketing services company, which he grew into one of Canada's largest independently owned agencies. In 1998, he successfully negotiated a merger with DraftWorldwide (a subsidiary of Interpublic Group) headquartered in New York. Soon after the merger, Mr. Miele was named President of the International Group, responsible for all operations outside the United States and led the company's international expansion plan with a combination of strategic acquisitions and organic growth. A member of the Young Presidents Organization, he sits on the boards of Izumi Outdoors and the Fishing Forever Foundation.

USEFUL FACTS

For the fiscal year ended March 31, 2004, unless otherwise noted

598	Number of LCBO stores serving communities across Ontario
181	Number of LCBO agency stores serving Ontario communities without large enough populations to support a regular LCBO store
891	Number of Beer Stores, Ontario winery stores, on-site distillery and brewery outlets and privately-operated duty-free stores in Ontario
47.8	Percentage share of Ontario beverage alcohol market, in dollar value, held by the LCBO
$8.0 billion	Total estimated value of Ontario's beverage alcohol market
$443 million	Estimated value of Ontario's illegal alcohol market
72	Number of LCBO stores offering more than 2,500 brands for sale
129	Number of LCBO stores offering 1,500-2,500 brands for sale
153	Number of LCBO stores offering 1,000-1,500 brands for sale
210	Number of LCBO stores offering 500-1,000 brands for sale
32	Number of LCBO stores offering fewer than 500 brands for sale
14,726	Number of product tastings conducted in LCBO stores
0.4	Percentage of customers in a February 2003 survey who said they were dissatisfied with service in LCBO stores
100 million	Total number of transactions in LCBO stores
32.0	Percentage of all LCBO transactions paid by debit card
27.1	Percentage of all LCBO transactions paid by credit card
$3.3 billion	The LCBO's net sales and other income in 2003-04
$1.04 billion	Dividend the LCBO transferred to the government of Ontario for 2003-04 (excluding taxes)
$4.6 billion	Amount the LCBO has transferred the last five fiscal years combined (excluding taxes)
417.8	Percentage return on taxpayers' equity
31.7	The LCBO's profit margin, expressed as a percentage
16.4	The LCBO's operating expenses as a percentage of net sales
$308 million	Amount the LCBO transferred to the provincial government in Provincial Sales Tax (PST)
$411 million	Amount the LCBO transferred to the federal government in GST, excise taxes and customs duties
$32.2 million	Amount the LCBO spent on capital improvements to its stores (renovations, relocations, etc.)
15,206	Total number of products available through LCBO stores, catalogues and private ordering service
4,250	Number of VINTAGES products offered in stores and through the *Classics Catalogue* and other programs
67	Number of countries from which the LCBO bought products
1,574	Number of products discounted by up to 20 per cent through the LCBO's Limited Time Offer program
1,252	Number of products that carried a "value-add" bonus item

1,422	Number of products with bonus AIR MILES Rewards
81	Percentage of domestic spirit prices made up of federal and provincial taxes, levies and mark-ups
60	Percentage of domestic wine prices made up of federal and provincial taxes, levies and mark-ups
54	Percentage of domestic beer prices made up of federal and provincial taxes, levies and mark-ups

Our Employees

3,280	Number of permanent full-time LCBO employees
3,283	Number of casual employees working in LCBO stores at fiscal-year end
149	Number of LCBO product consultants available to offer expert advice to customers
1,782	Number of Retail employees who received social responsibility training to help prevent service to minors or people who appear intoxicated
368	Number of Retail employees who passed the highest level of our three-level Product Knowledge Course this year
364	Number of Retail employees who passed the LCBO Service Knowledge Course this year
73,720	Number of calls handled by LCBO Infoline officers
7,244	Number of e-mails handled by LCBO Infoline officers

Our Fundraising

$165,000	Total amount raised by LCBO employees through donations and special events for the United Way 2003 campaign
$450,000	Amount raised for charity through donation boxes in LCBO stores in calendar 2003 (Note: This includes funds raised for local charities in January and June, funds raised by the Royal Canadian Legion in November and the Canadian Cancer Society during "Daffodil Days" and proceeds of CD sales at checkouts.)

Social Responsibility

1,204,317	Number of customers challenged for proof of age or sobriety by LCBO staff
68,509	Number refused service
3,985	Number of BYID tamper-resistant identification cards issued by the LCBO during 2003-04
28,000	Total number of BYID cards issued as of March 31, 2004

Quality Assurance

367,870	Number of product tests carried out by LCBO's Quality Assurance laboratory
1,034	Number of products rejected by Quality Assurance for health concerns, consumer safety issues and other quality control problems
299	Number of seized products tested for enforcement purposes by Quality Assurance
1	Number of product recalls issued by Quality Assurance

For information about LCBO products and services
visit us on the Internet at
www.lcbo.com and www.vintages.com

STATISTICAL INSERT

For LCBO Annual Report, fiscal 2003-04

Product Listings

Domestic	2000	2001	2002	2003	2004
Canadian Whisky	158	163	153	147	158
Canadian Blended Rums	105	109	87	86	89
Canadian Gin	22	19	16	14	15
Canadian Vodka	70	75	61	64	59
Canadian Brandy	18	16	14	13	12
Canadian Spirit Coolers	51	64	57	45	57
Fruit Spirits	0	0	0	0	0
Miscellaneous Liquors	24	27	30	17	8
Canadian Liqueurs	55	56	56	61	63
Ontario Wines	474	448	429	422	397
Ontario Wine Coolers	5	7	6	2	1
Other Canadian Wines	43	32	40	36	30
Canadian Cider	14	12	6	9	4
Canadian Beer (incl. Beer Coolers)	403	407	426	444	473
Alcohol	3	3	2	2	2
Miniatures	9	7	7	8	6
Bitters	3	3	3	3	3
Total Domestic	**1,457**	**1,448**	**1,393**	**1,373**	**1,377**
Imported					
Scotch Whisky	108	119	112	116	120
Irish Whiskey	11	10	9	10	12
American Whiskey	21	22	24	19	21
Gin	17	15	15	17	18
Rum	20	29	24	27	32
Vodka	47	53	63	61	62
Tequila	19	23	19	18	18
Brandy	100	101	113	118	132
Fruit Spirits	3	3	0	0	0
Miscellaneous Liquors	86	96	128	101	104
Liqueurs	125	127	124	126	131
Wines	1,187	1,111	1,155	1,177	1,113
Beer and Saké	256	276	252	261	255
Miniatures	18	28	26	20	22
Coolers	11	7	22	23	29
Bitters	10	10	8	9	3
Total Imported	**2,039**	**2,030**	**2,094**	**2,103**	**2,072**
Total Regular Listings	**3,496**	**3,478**	**3,487**	**3,476**	**3,449**
Vintages Wines and Spirits	3,569	3,108	2,858	3,127	4,250
Duty-Free Listings	235	212	224	240	221
Consignment Warehouse and Private Stock	6,106	6,225	5,444	6,813	7,286
Total Product Listings	**13,406**	**13,023**	**12,013**	**13,656**	**15,206**

Note: Canadian blended brandy, which in previous years was listed separately, is now included in the Canadian brandy listings. Product listing figures for Consignment Warehouse and Private Stock are estimates based on invoices produced by Specialty Services.

Sales Channel Summary (value in $000s) Year ended March 31, 2004

LCBO	2000	2001	2002	2003	2004
Retail Sales	2,390,949	2,556,340	2,752,978	2,889,813	3,082,837
Licensee Sales	396,879	419,731	417,478	431,212	430,561
Agency Sales	32,420	33,981	35,578	48,645	64,881
Duty-Free/Warehouse	34,454	35,943	35,442	37,804	32,886
Duty-Free/LCBO	303	0	0	0	0
TBS Sales	109,692	128,848	172,416	209,608	239,723
Other Sales	3,013	3,073	3,837	4,967	6,506
Total	**2,967,710**	**3,177,916**	**3,417,729**	**3,622,049**	**3,857,394**
The Beer Store					
Retail & Licensee Sales	2,324,225	2,381,289	2,522,993	2,607,077	2,638,488
Winery Stores					
Retail Sales	140,681	147,178	162,539	174,284	182,349
Other Channels					
Legal:					
Cross-Border Exempt	155,818	208,614	210,856	204,485	186,473
Cross-Border Declared	3,124	2,658	2,526	2,336	2,549
Brew Pubs	1,950	1,624	1,548	1,623	1,361
Wine Pubs	4,722	4,647	4,675	4,848	6,562
U-Brew-Beer	163,959	174,425	185,265	175,536	37,146
U-Brew-Wine	611,892	608,692	612,234	568,245	433,596
Total	**941,465**	**1,000,660**	**1,017,104**	**957,073**	**667,687**
Homemade:					
Wine	40,597	30,702	30,892	34,630	144,532
Beer	18,473	18,323	17,121	16,222	3,631
Total	**59,070**	**49,025**	**48,013**	**50,852**	**148,163**
De-alcoholized Beer	**22,314**	**20,870**	**20,191**	**19,125**	**20,503**
Illegal:					
Smuggling	279,883	270,735	299,865	290,011	279,909
Wine Manufacturing	175,918	135,183	132,570	165,518	163,062
Total	**455,801**	**405,918**	**432,435**	**455,529**	**442,971**
Grand Total	**6,911,266**	**7,182,856**	**7,621,004**	**7,885,989**	**7,957,555**

Note: All figures above are shown in gross sales. The numbers included in the Other Channels category are estimates. The Beer Store (TBS) and Winery store sales data were supplied by the Brewers of Ontario and individual Ontario wineries. The methodology used to estimate certain categories under Other Channels has been revised for 2004. Prior year figures have not been restated. Sales values reported under Other Channels are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively.

Retail Price Breakdowns

Spirits

Examples as at March 31, 2004 for 750 mL bottle in Canadian dollars (40% Alcohol)	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	$3.5907	$3.6163	$4.0143
Federal Excise Tax	$3.3198	$3.3198	$3.3198
Federal Import Duty	$0.0000	$0.0148	$0.0000
Freight	$0.2500	$0.2125	$0.0400
Total Landed Cost	**$7.1605**	**$7.1634**	**$7.3741**
LCBO Markup	$10.3899	$10.3869	$10.1763
LCBO Bottle Levy	$0.2175	$0.2175	$0.2175
LCBO Environment Fee	$0.0893	$0.0893	$0.0893
LCBO Rounding Revenue	$0.0000	$0.0000	$0.0000
Basic Price	**$17.86**	**$17.86**	**$17.86**
Goods and Services Tax	$1.25	$1.25	$1.25
Provincial Retail Sales Tax	$2.14	$2.14	$2.14
Consumer Price	**$21.25**	**$21.25**	**$21.25**
Revenue Distribution			
Supplier (including freight)	$3.84	$3.83	$4.05
Government of Canada	$4.57	$4.58	$4.57
Government of Ontario	$12.84	$12.83	$12.62

Wines

Examples as at March 31, 2004 for 750 mL bottle in Canadian dollars	Imported U.S.	Imported Non-U.S.	Domestic 100% Ont.
Payment to Supplier	$3.6942	$3.6345	$4.0272
Federal Excise Tax	$0.3842	$0.3842	$0.3842
Federal Import Duty	$0.0000	$0.0281	$0.0000
Freight	$0.1669	$0.2038	$0.0000
Total Landed Cost	**$4.2453**	**$4.2506**	**$4.4114**
LCBO Markup	$2.7170	$2.7204	$2.5586
LCBO Wine Levy	$1.1250	$1.1250	$1.1250
LCBO Bottle Levy	$0.2175	$0.2175	$0.2175
LCBO Environment Fee	$0.0893	$0.0893	$0.0893
LCBO Rounding Revenue	$0.0100	$0.0000	$0.0000
Basic Price	**$8.40**	**$8.40**	**$8.40**
Goods and Services Tax	$0.59	$0.59	$0.59
Provincial Retail Sales Tax	$1.01	$1.01	$1.01
Consumer Price	**$10.00**	**$10.00**	**$10.00**
Revenue Distribution			
Supplier (including freight)	$3.86	$3.84	$4.03
Government of Canada	$0.97	$1.00	$0.97
Government of Ontario	$5.17	$5.16	$5.00

Beer

Examples as at March 31, 2004 for a case of 24 x 341 mL bottles in Canadian dollars	Imported U.S.	Imported Non-U.S.	Domestic
Payment to Supplier	$11.1949	$11.0813	$13.0619
Federal Excise Tax	$2.2903	$2.2903	$2.2903
Federal Import Duty	$0.0000	$0.0000	$0.0000
Freight	$0.5248	$0.6384	$0.0000
Total Landed Cost	**$14.0100**	**$14.0100**	**$15.3522**
LCBO In-store COS	$4.9595	$4.9595	$4.9595
LCBO Out-of-store COS	$1.3422	$1.3422	$0.0000
LCBO Markup	$4.1779	$4.1779	$4.1779
LCBO Bottle Levy	$1.4404	$1.4404	$1.4404
LCBO Environment Fee	$0.0000	$0.0000	$0.0000
LCBO Rounding Revenue	$0.0000	$0.0000	$0.0000
Basic Price	**$25.93**	**$25.93**	**$25.93**
Goods and Services Tax	$1.81	$1.81	$1.81
Provincial Retail Sales Tax	$3.11	$3.11	$3.11
Container Deposit	$2.40	$2.40	$2.40
Consumer Price	**$33.25**	**$33.25**	**$33.25**

Revenue Distribution

Supplier (including freight)	$11.72	$11.72	$13.06
Government of Canada	$4.10	$4.10	$4.10
Government of Ontario	$15.03	$15.03	$13.69
Container Deposit	$2.40	$2.40	$2.40

Revenue Distribution

	Domestic Spirits	Domestic Wine	Domestic Beer
Supplier	19%	40%	39%
Federal Government	22%	10%	13%
Provincial Government	59%	50%	41%
Deposit			7%

Note: COS refers to the LCBO's cost of service. The container deposit applies only to products which can be returned for a container refund.

Eleven-Year Financial Performance Review

(values in $000s)

	2004	2003	2002	2001	2000
Statement of Earnings					
Sales and Other Income	$3,320,681	$3,119,240	$2,939,563	$2,734,937	$2,549,458
Cost of Sales	$1,726,475	$1,653,739	$1,529,018	$1,390,575	$1,288,903
Gross Profit	$1,594,206	$1,465,501	$1,410,545	$1,344,362	$1,260,555
Per Cent	48.01%	46.98%	47.98%	49.16%	49.44%
Operating Expenses	$548,778	$525,959	$489,633	$468,090	$414,861
Net Income	$1,045,428	$939,542	$920,912	$876,272	$845,694
Statement of Cash Flow					
Cash Flow from Operations	$1,093,721	$985,800	$965,372	$917,010	$876,196
Change in Working Capital	$15,192	$28,885	$27,134	$5,428	($15,198)
Cash Used for Investing Activities	($52,573)	($73,408)	($55,359)	($55,610)	($54,443)
Cash Used for Provincial Transfers	($1,040,000)	($975,000)	($985,000)	($850,000)	($800,000)
Decrease/Increase in Cash During the Year	$14,339	($33,723)	$32,147	$16,828	$6,555
Financial Position					
Current Assets	$365,218	$322,892	$334,028	$330,315	$308,724
Total Liabilities	$338,896	$299,539	$248,067	$249,367	$221,226
Working Capital	$26,322	$23,353	$85,961	$80,948	$87,498
Fixed Assets	$227,504	$225,045	$197,895	$186,996	$172,124
Total Assets	$592,722	$547,937	$531,923	$517,311	$480,848
Financial Ratios					
Profit Margin	31.70%	30.33%	31.53%	32.28%	33.38%
Return on Shareholders' Equity	417.84%	353.04%	333.78%	332.19%	357.17%
Current Ratio	1.08	1.08	1.35	1.32	1.40
Statistics					
Inventory Turnover	7.32	7.46	5.95	5.29	5.26
Number of Permanent Employees	5,320	5,362	5,225	5,174	5,074
Sales per Permanent Employee	$993,342	$921,383	$905,518	$855,175	$824,206
Number of Stores	598	597	599	601	602
Number of Regular Products Listed	3,449	3,476	3,487	3,478	3,496

Note: Sales per Permanent Employee are stated in absolute dollars, not in thousands of dollars.

1999	1998	1997	1996	1995	1994
Statement of Earnings					
$2,349,832	$2,160,843	$2,013,873	$1,909,804	$1,808,518	$1,764,731
$1,165,849	$1,064,286	$988,386	$919,268	$858,190	$832,106
$1,183,983	$1,096,557	$1,025,487	$990,536	$950,328	$932,625
50.39%	50.75%	50.92%	51.87%	52.55%	52.85%
$374,558	$351,653	$324,457	$323,819	$313,029	$333,716
$809,425	$744,904	$701,030	$666,717	$637,299	$598,909
Statement of Cash Flow					
$834,465	$769,507	$723,197	$687,663	$655,198	$619,979
($8,651)	($29,537)	$49,819	$9,659	$5,473	($15,824)
($40,265)	($25,524)	($19,424)	($26,256)	($26,895)	($14,753)
($780,000)	($745,000)	($730,000)	($680,000)	($630,000)	($585,000)
$5,549	($30,554)	$23,592	($8,934)	$3,776	$4,402
Financial Position					
$275,774	$230,720	$256,209	$239,516	$229,543	$201,204
$210,029	$179,475	$203,667	$160,727	$132,159	$92,813
$65,745	$51,345	$52,562	$78,789	$97,382	$108,391
$148,184	$132,938	$132,047	$134,780	$129,470	$120,474
$423,957	$363,678	$388,256	$374,296	$359,013	$321,678
Financial Ratios					
34.80%	35.03%	35.21%	35.33%	35.61%	34.24%
406.31%	405.63%	452.13%	302.70%	285.63%	269.90%
1.31	1.29	1.26	1.49	1.74	2.17
Statistics					
5.40	5.53	5.02	5.07	4.92	5.02
3,014	2,934	2,828	2,803	2,824	2,743
$771,623	$724,866	$706,079	$673,273	$633,656	$637,678
680	596	595	596	597	600
3,366	3,098	2,960	3,149	3,053	2,824

LCBO